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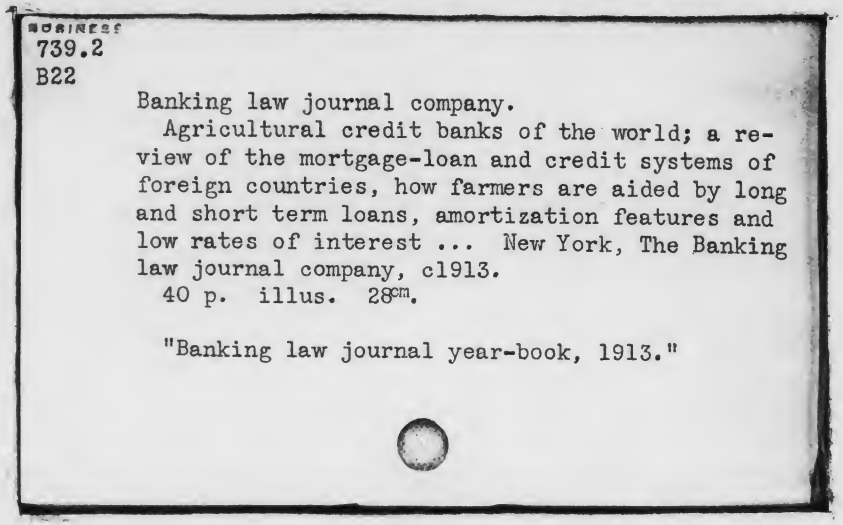

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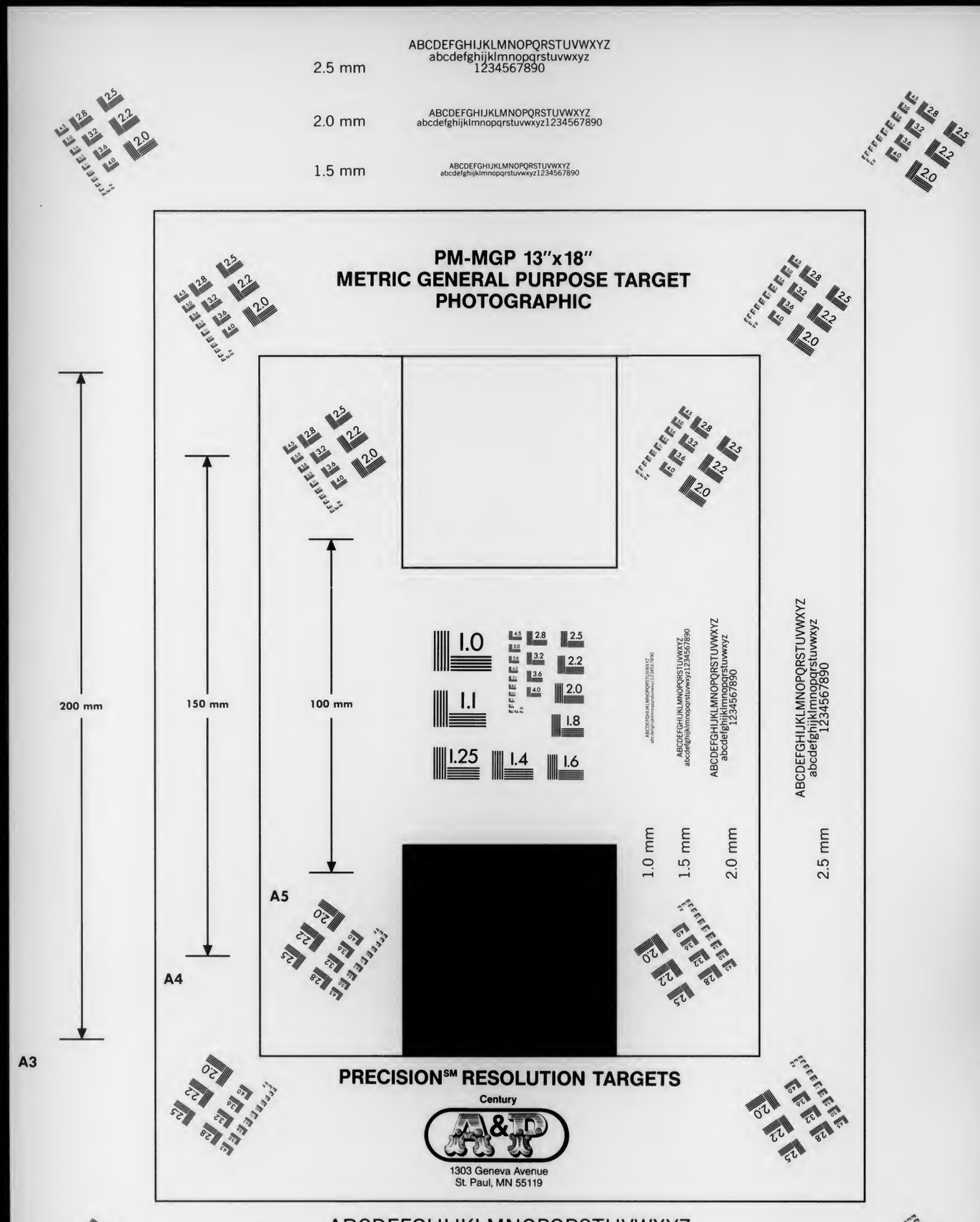
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Agricultural Credit Banks of the World

A REVIEW OF THE MORTGAGE-LOAN AND CREDIT SYSTEMS OF FOREIGN COUNTRIES : HOW FARMERS ARE AIDED BY LONG AND SHORT TERM LOANS AMORTIZATION FEATURES AND LOW RATES OF INTEREST

Banking Law Journal Year-Book

1913

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XVIII

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FOREWORD

IT IS a remarkable fact that whereas in European Countries the mortgage-bank system of aiding farmers with loans at low cost to them, has existed for more than half a century, in the United States, the greatest agricultural country in the world, so little has been done in this direction that the system may be said to be non-existent.

¶ Here and there we have had sporadic instances of such institutions approximating in their methods and results those found in Europe; but these exceptions merely emphasize the absence of a proper system.

¶ It is all the more remarkable because for twenty years past we have had so much discussion, periodically, of the desirability of such methods of helping our agriculture, that there is a voluminous literature on the subject.

¶ Furthermore the farmers constitute a powerful factor in our political life and can usually get what they seriously and persistently demand; yet they have not moved concertedly to obtain remedial legislation that shall relieve them from the burden of high interest rates.

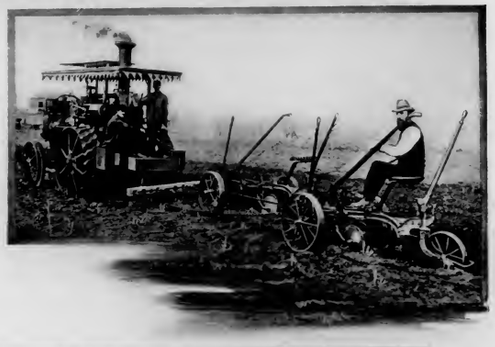
¶ This, too, in the face of the fact that in no country is there such a mass of current literature, weeklies and monthlies devoted to agricultural interests, which one would suppose should have educated the farmers to demand equitable treatment.

¶ Now that the result of this policy of inaction has been to diminish the volume of farm products, in consequence of which we are pinched by high prices, we have suddenly waked up to the needs.

¶ A comprehensive discussion of foreign systems with accounts of typical mortgage-loan banks abroad, will, therefore, prove of more than ordinary interest and instructive value.

PRE-HISTORIC CULTIVATION STILL IN USE

MODERN CULTIVATION



CULTIVATION IN EARLY DAYS

SOIL CULTIVATION

THE FOREIGN MORTGAGE-LOAN SYSTEMS

THE chief features of the system of mortgage loans in other countries,—known as "hypothek" systems,—are the long terms for which loans are made, the amortization provisions, and the low rates of interest charged. Operating together, the result is that the borrowers, by paying periodically a fixed sum, usually less than that which is exacted in most parts of this country *for interest alone*, are gradually paying off the principal of their debt.

To illustrate:

A loan for $1,000 under the German system, payable in 18 years, requires a payment of $80 a year; when the period has elapsed and all instalments have been paid, the borrower owes nothing; he has then paid $1,440, thus apparently paying as interest $440, or at the rate of only 2.44 per cent. per annum. Actually he paid 4 per cent., but by reducing his debt each year, he gets the benefit of diminishing interest by reason thereof.

Thus at the outset he pays $40 on account of principal and $40 for interest on the full amount of the loan of $1,000; the second year he has to pay interest on only $960, which means $38.40; so that he has $41.60 of his $80 payment to be applied to the reduction of the principal. The actual interest payment thus decreases each year, and the amount which can be applied to principal increases, with the result as stated.

With us the borrower in case of an ordinary mortgage loan at 8 per cent. (if he is forced to carry a mortgage for 18 years) would pay $1,440 in interest and then have his principal still to pay. True, our ordinary mortgages do not run for so long, but in many cases they run for periods nearly as long, and there are often renewal charges added to his expense.

Which system is more conducive to the development of agriculture?

The ratio of instalment payments varies, of course, with the period for which the loan is to run. Thus it goes from 10 per cent. on a 14-year loan, to 5½ per cent. on a 34-year loan. A 6 per cent. rate is made on a mortgage running for 28 years.

Loans are often made for 50 and even 75 years, which of course reduces the annual instalment even more. There are also irredeemable loans made in some cases.

The method employed in general is to issue bonds based on the mortgages and sell these bonds to investors. All over Europe such bonds are regarded as prime investments by capitalists and thrifty people generally. They are satisfied as to their absolute safety, because there is no better security in the long run than improved and productive real estate. Most of these bonds bear 4 per cent. interest, although many are issued at 3½ per cent.; yet they are in good demand because capital is so abundant.

The companies making the loans usually limit the bond issues to twenty times their capital stock, increasing the latter as the business grows. There is hence a 20 per cent. guarantee fund behind the bonds in addition to the mortgages. Thus every $1,000,000 in bonds has behind it in mortgages $1,000,000 and in other securities and cash $200,000.

One circumstance not to be overlooked is that in Europe the communities are far more settled than is the case with our agricultural population, particularly in the Western sections; yet this does not obtain in our Eastern and Southern sections, where there is a considerable permanency in tenure and occupancy of land. On the other hand the superior loaning system makes very potently for permanence, by obviating the pressure which causes the discontent and desire for change in the mind of the farmer.

It is as a matter of course also to be considered that in a relatively new country interest rates are higher than in older ones, where wealth has been accumulating for generations. But it is a fact that if we had had the system installed in this country, we could have obtained cheap money abroad for the purpose. All that is necessary now is that we create a system that assures security for the investor beyond all doubt.

ANCIENT CULTIVATION

Table Showing Process of Liquidation of a $1,000 Mortgage Loan

Annual Payment $60; interest 4%, sinking fund 2%

Years.	Interest Payment.	Sinking Fund.	Paid on Principal	Due on Principal	Total.
	---	----	---	$1,000.00	$1,000.00
1	$40.00	$20.00	$20.00	$980.00	1,000.00
2	39.20	20.80	40.80	959.20	1,000.00
3	38.37	21.63	62.43	937.57	1,000.00
4	37.50	22.50	84.93	915.07	1,000.00
5	36.60	23.40	108.33	891.67	1,000.00
6	35.67	24.33	132.66	867.34	1,000.00
7	34.69	25.31	157.97	842.03	1,000.00
8	33.68	26.32	184.29	815.71	1,000.00
9	32.63	27.37	211.66	788.34	1,000.00
10	31.53	28.47	240.13	759.87	1,000.00
11	30.39	29.61	269.74	730.26	1,000.00
12	29.21	30.79	300.53	699.47	1,000.00
13	27.98	32.02	332.55	667.45	1,000.00
14	26.70	33.30	365.85	634.15	1,000.00
15	25.37	34.63	400.48	599.52	1,000.00
16	23.98	36.02	436.50	563.50	1,000.00
17	22.54	37.46	473.96	526.04	1,000.00
18	21.04	38.96	512.92	487.08	1,000.00
19	19.48	40.52	553.44	446.56	1,000.00
20	17.86	42.14	595.58	404.42	1,000.00
21	16.18	43.82	639.40	360.60	1,000.00
22	14.42	45.58	684.98	315.02	1,000.00
23	12.60	47.40	732.38	267.62	1,000.00
24	10.70	49.30	781.68	218.32	1,000.00
25	8.75	51.27	832.95	167.05	1,000.00
26	6.68	53.32	886.27	113.73	1,000.00
27	4.55	55.45	941.72	58.28	1,000.00
28	2.33	57.67	999.39	0.61	1,000.00
Balance		0.61	1,000.00		
Total	$680.61	$1,000.00			

28 annual payments of $60 equal $1,680. Interest account $680 equals per annum an average rate of 2.43 per cent.

Actually the interest figures out 61 cents more, which requires that amount to balance the principal; if payments are made semi-annually this difference disappears.

Germany

IT was in Germany, (specifically in Prussia) that the first steps were taken to provide credit institutions for agriculturists. The inception of the system dates from the days of Frederick the Great, in 1769, although it took time and experience to develop it into the present complete and comprehensive status.

The origin of the system must be credited to a Berlin merchant named Bühring, who submitted a memorial to King Frederick; it was first placed in operation in Silesia. At the outset it was designed specially for the nobility who possessed the great landed estates, but eventually the peasants were also provided for. The King felt compelled to *order* the nobility to adopt the system, because the condition of Prussia's agriculture was deplorable and its future at stake. The other states of what is now the German Empire soon followed the lead of Prussia.

It was originally merely a crude method by which, through associations of all the landed gentry in the several sections, these could, by guaranteeing each other, obtain loans at reasonable rates. The associations thus created, called "Landschaften," issued bonds on the mortgages securing the loans.

Then came the creation of joint-stock companies for the purpose of making these loans, the earliest dating from 1832, located in Bavaria. Legislation was then passed to regulate the business, and so far did the governments intervene that in some states some of the officials of the organizations are treated as public officers. Legislation on the other hand provides that the bonds issued by the associations and corporations are to be available for investment of trust funds.

At first the amortization feature was not included; eventually the amortization, or instalment payment of the principal, became the most important feature.

This system is to be regarded as entirely distinct from the agricultural improvement banks and the local co-operative banks under the Raiffeisen and the Schulze-Delitzsch plans. All these latter were created for short-term loans, not made on the lands but upon personal property, such as implements, cattle, etc., and on the credit of the borrowers. These are of the highest importance, but will be dealt with in a separate chapter.

Besides the above mentioned banks there are in Germany, 23 land mortgage credit banks, 16 mortgage credit banks, 3,000 savings banks, 31 insurance institutions, working along agricultural improvement lines.

Originally, mortgage loans were limited to one-half of the value of the property; in later years the limit was raised to two-thirds; as values are based in part on appraisal, part on the assessment valuation for taxation, they are readily and accurately determinable. In recent years the system has been extended to loans on city property as well.

The borrower in some cases receives the bonds, which he must sell in the market; in other cases he receives cash; in other cases still the bank will negotiate the sale of the bonds for the borrower for a small commission. A market is made for the bonds on the stock exchanges.

Terms of loans are from 10 to 75 years. To the net interest charge, now as low in many cases as 3½ per cent., there is added the ascertained amortization rate, determined by the number of years to run; to this is further added one-quarter to one-half per cent. for expenses, and in a few places a small fraction to cover emergencies, losses, etc.

The borrower may anticipate his instalment payments. Foreclosures are so few as to be almost negligible. Laws now also permit the release from debt to the extent that payments are made, after 10 per cent. has been paid on the principal; in some instances this is permitted to lay the basis for a further credit.

In 1873 there was formed a sort of federation of nine of the associations for the purpose of providing greater facilities for placing the bonds. This has proved very useful.

In all, the bonds created by the land-mortgage banks represent a total of $2,000,000,000. The Bavarian Hypothek Bank, organized in the thirties, has increased its capital seven-fold, being now about $14,000,000; its shares have a value of over 300, since its dividends range about 13 per cent. annually.

NINETEENTH CENTURY CULTIVATION

The Landschaften

THE oldest form of land bank, or to use a more correct term, co-operative society of land owners, is the *Landschaft* (Land Society) of Germany. The object of the society, whose operations are generally confined to a province or other administrative unit, is to obtain for its members long time credit required for land improvement, by sale of bonds collectively guaranteed by the landowners of the province. The idea has been tested by a hundred and forty years of success and there are now in Germany 25 of these societies which have outstanding over $700,000,000 in mortgage loans on farms. In fact, in the most critical times, agricultural credit has been more stable than that of the State, for the latter came to the East Prussian Landschaft in 1808 and 1809 to raise part of the military contribution, by the issue of mortgages on its forests and domains.

The German mortgage banks have, however, outstripped the Landschaften in volume of business, the reason no doubt being in the fact that the latter are purely mutual concerns, operated without profit, while the mortgage bank has in it the element of gain so necessary in making financial concerns grow. The Landschaft is simply the intermediary between the farmer who seeks credit and capital that seeks investment, asking nothing for its service but the cost of getting the two together. In fact both the Hypothekenbank and the Landschaft substitute a mortgage system (*Pfandbriefsystem*) for individualistic borrowing and lending. The success of the Landschaft is due to three principles: (a) The debenture bond (*Pfandbrief*); (b) the amortization of loans, which has a two-fold value, in that it lessens the debtor's obligation year by year and increases the creditor's security; (c) the sinking fund for bond redemption; to which might be added, as already indicated, the co-operative guaranty, which is the historical foundation on which the Landschaft system has developed.

The three principles mentioned form the groundwork for any mortgage bank, whether State, as in the Crédit Foncier, or private, as in the Hypotheken-banken of Germany. Modified forms of the Landschaft exist in Russia, Austria, Switzerland, Denmark and Roumania, while Hungary has one of the original type.

Historical and Theoretical

The origin of the Landschaften idea has already been mentioned. Herr Bühring's plan was based on the well-known, but too often forgotten fact that in the land is the nation's greatest wealth. But in order to make this asset profitable and productive to the highest degree, it must be worked to "the limit," but not to the point of depleting its creative powers. It must have the third factor in production—capital, applied to it. In view of the fact that capital invested in land can only be regained to the owner by the productiveness of the soil, the principal of any loan that may be made on landed security can only be repaid out of the income by slow degrees—amortized, to use the technical term, over a period of years. To obtain this capital, he would issue bonds, secured by mortgages, which in turn, are secured by the equity in the land, plus a collective guaranty of payment of all who joined the society. In other words, the promise of the Landschaft to pay the face of the bond to the owner thereof is secured by the promise of the mortgagor to pay to the society; and both promises (individual) are reinforced by the collective guaranty to pay if the primary debtors do not.

As a general rule the good will not guarantee the bad or even doubtful; but, if the bad are not in evidence, the collectively good may be persuaded to guarantee the obligations of the individually good. In this instance, the landowners, whether of a borrowing turn of mind or not, were forced to join the society and July 9, 1770, saw the birth of the first of these societies, the *Generallandschaft of Silesia*, and success has followed the idea ever since. In fact, any co-operative movement seems to succeed in Germany, there being a co-operative society for every 2,600 of the population and a co-operative bank of some sort for every 1,600.

The Landschaften are distinguished as "old" and "new," the old being formed largely of the nobility and sometimes designated "Ritterschaften," the original society at Silesia being still in existence. The *Kur-und-Neumärkische Landschaft* for the nobility of Brandenburg was created in 1777; Pomerania in 1781; West Prussia in 1787; East Prussia in 1788; thus showing the age of these societies.

Four of these five mentioned societies are composed of several co-operative societies, or of several almost-independent administrative sections. In Silesia each society disposes of a separate fund and the obligations are covered by the double guaranty, first of the society, and then by the Landschaft of the province. The five were all formed by the State. Of ten others in Prussia, nine were formed by the Provinces and one by individuals. Three in Hanover do not issue bonds, but lend cash advanced by capitalists.

Administration

The business of the Landschaften is under State inspection, being entrusted in the first instance to the president or prefect of the Province; and, secondly, to the Prussian Minister of Agriculture, Domains and Forests. The officials are indirectly employees of the State, are subject to a code of discipline and enjoy the privilege of State officials regarding taxes, and generally have power to sign certain public documents, certify as to titles, and make valuations. The executive authority is vested in a board of directors, a board of representatives, constituting a board of appeals from the decisions of the directors, and the highest court of appeals, the general assembly of landowners presided over by royal commissioners.

The syndics (those qualified for the office of judge and who have notarial powers) and subordinate officials receive full salaries. The fees of the board of directors are based on the time given to the work and expenses.

Capital

The Landschaften, like all mutual institutions, have no capital, issue no stock, and pay no dividends. The members are responsible in all their property, for all borrowings unless liability is limited, as generally obtains in the new Landschaften. In some cases only the property pledged is liable; in others, a sum proportionate to the amount borrowed, while the growing practice is to create a reserve fund.

Reserve

All the profits are carried into the reserve. Some societies require a small entrance fee, which is also carried into this fund.

Debenture Bonds

Originally a bond was given by the Landschaft the same size as the loan granted, promising to pay if the borrower did not. The holder had to foreclose before the liability of the Landschaft became operative. The loss was then made good. Such bonds were not "liquid," on account of their varying size, and had limited circulation and sold below par. Later the Landschaft undertook to collect principal and interest—in fact, both practices were in substance guaranteeing the loan after the manner of the guaranteed mortgages issued by our title companies to-day. Lastly, the society assumed direct responsibility, paid the borrower either in bonds of small denominations or in cash. The borrower, in making application, states the object for which the loan is desired, the amount wanted, and the length of time which the loan is to run. If loan is granted (and he cannot be denied one-half the value of his land), bonds are issued in like amount. All but three of the "old" Landschaften pay the borrower, not in money, but in bonds, which are converted into money by banks making a feature of negotiating such securities; or he might pay his debt with these securities, which are generally in high favor and have a wide market. Should the amount be insufficient to meet the borrower's needs, on account of the discount, a short time loan may be made from the society's available funds. If cash is paid the borrower, and bonds are selling at a discount, only proceeds are given; if at a premium, only par is paid, the premium going into the reserve. In some banks if cash is paid the amount is regulated by the market price of securities at the time.

The outstanding bonds must always equal the amount unpaid on mortgages, and the security, as aforesaid, is the mass of underlying mortgages, the other assets of the society, the sinking fund, surplus, and ultimately the unlimited liability of the members. There is a growing tendency to limit liability and substitute reserves. The bonds are payable to bearer and are redeemable only when drawn, and are therefore subject to call; they are legal investments for trust funds and enjoy as high credit as government securities.

As the body of landlords possesses real estate of enormous value, but have no large sum of money at their disposal, they secure needed funds by these bond issues secured by the collective obligation of the group. The creditor and the debtor no longer deal with one another. They may not even know each other, or care. The investor receives his interest from the Landschaft and the whole estates of the province forms his security. The bonds circulate as freely as any security can, and land credit, generally slow-moving or dead, has in the highest degree become liquid.

Loan Methods

The ultimate security for any scheme of land banking lies in the quality of the loans. They must first of all be productive; therefore no vacant lots, held for a land boom; no risky ventures, such as summer hotels, pleasure resorts, etc. Properties with limited utility must be very conservatively valued, and loans upon constantly decreasing security,

such as a mine, quickly amortized, if not frowned upon altogether. The one security that is most free from criticism is the well-managed farm, and the Landschaft was primarily organized to lend on farm security. In any event the crux of the whole matter is the appraisal, which value may be arrived at from the assessment valuation or independent appraisal, generally 35 times the net revenue as made for the land tax. Frequently the appraisal is based on the producing power of the land. Loans are restricted usually to one-half estimated value as made by local deputies, but two-thirds is permissible. Only first mortgages are taken, and term of payment by the borrower is optional.

While the Landschaft was originally intended to supply the large landowners only, with credit, some have extended their operations to the small proprietor as well. Most of the later societies serve both classes, and, in this case, there is a limit to the minimum value of land that may be mortgaged, namely, that amount which will support the owner, generally a net income calculable for the land tax at a minimum from 75 to 150 francs. The Landschaft of Silesia issues special bonds for peasants' lands. In the new Brandenburg Landschaft, affiliated with the old Kur-und-Neumark Landschaft, loans may be granted on property having net income of only $25.

The Landschaft of East Prussia periodically sends its employees into the villages, who give all necessary information regarding loans, and receive applications for such borrowing.

Loans can be called upon waste or deterioration, and the Landschaften have a quick and inexpensive method of foreclosure without resorting to the courts.

The mortgage bonds are drawn up by special commission of control which must be convinced that an equivalent amount of mortgaged property exists. The mortgage document is provided with a stamp, so that the keeper of the land register may record the surrender or redemption of the mortgage security only on proof that a similar amount of bonds are drawn from circulation. In individual Landschaften the stamp is cancelled by the commission of control itself, under like conditions; the newer societies place the responsibility upon the board of directors.

Interest Rates

The high grade security offered in the Landschaft has made low interest rates possible, and the rate has always been moderate. Five per cent. prevailed from 1868–1878, but the rates vary with market conditions, the figures usually ranging from 3 to 4 per cent. The old 5s have been gradually refunded into 3s and 3½s. The interest charged the borrower is usually from ½ to 1 per cent higher than the society pays its creditors, the difference covering expenses and constituting the reserve funds. The amount paid for the amortization of the loan depends upon the length of the time it has to run. A payment of 4 per cent. per annum would be divided as follows: For interest, 3 per cent.; amortization, ½ per cent.; guaranty fund, ¼ per cent.; expenses, ¼ per cent. The amortization period is usually about 53 years, and the great advantage of the unrecallable feature of the loan is that the borrower gets the same rate throughout the life of the loan. He may take advantage of a fall in interest rates, but a rise cannot affect him.

Loan Banks

To render the negotiation of bonds easy, special banks have been created in connection with the Landschaften and under their control, with no intention of profit, which goes to the parent institution.

Therefore, closely affiliated with the Landschaften are these "loan banks" whose chief function it is to finance the mortgage business, such as the sale and purchase of mortgage bonds, payment of interest on the same, payment of cash for mortgage bonds allotted, advances to borrowers, and conversion of private mortgages. They also receive deposits, and furnish temporary credit to borrowers. They are endowed from the Landschaft fund, and pay from 6 to 10 per cent. dividends. The net earnings not turned into the reserve fund of the bank go to the Landschaften.

From the Landschaften proper are to be distinguished the mortgage banks, elsewhere treated, which carry on a mortgage loan business for their own profit, and also the state or communal land credit institutions, agricultural banks (*Landkulturrentenbanken*) (q. v.) provincial auxiliary banks (*Provincial Hilfskassen*), agricultural credit banks (*Landeskreditkassen*), etc. These institutions take the place of the Landschaften in those sections where the latter are wanting or but feebly developed. They are not independently managed, but operated either by the State, the province, or communal union, for the purpose of giving aid to agricultural development.

German Mortgage Banks

(HYPOTHEKENBANKEN)

THE German Mortgage Banks are stock corporations. In addition to the subscribed capital, surplus and earnings, funds are obtained by the sale of bonds in the open market, and with the proceeds real estate loans are made. The security to the bondholders consists of the capital of the bank, the surplus fund, the obligations of the mortgagors, reinforced by the equity in the pledged property; all of which are additionally safeguarded by a system of careful inspection. The care exercised in granting loans and the general high order of the management have placed the obligations of these companies on a high plane of excellence. There are many such in Germany, and a review of the general principles regarding their operation will be sufficient to give a clear conception of this form of land finance. The volume of business of these banks is enormous and they have outstripped their old rivals, the Landschaften, "five to one," for the reason, it would seem, that the stock company is more in keeping with the times than mutual co-operative concerns, however good the latter may be. They now have out on mortgage loans more than $2,618,000,000, or 5 times the loans of the Landschaften. Theoretically the outstanding loans and bonds should exactly balance; in practice they do not, the capital and surplus forming the margin of safety for the fluctuations. Of all the land bank systems of the world, this would seem best adapted to the United States, provided the plan of operation can be national in scope. The German law was formed to overcome the conflict of authority between sovereign states, and had the same obstacles to overcome that accrue to a nation made up of independent units such as obtains in the United States.

The capital of the 36 mortgage banks in Germany is now over $170,563,000, the reserve fund $66,711,400, the smallest capitalization being $258,000 and the largest $14,000,000. The dividends run from 6 to 14 per cent. The liability may be limited or unlimited.

These banks are chartered by the Federal Council, unless the business is to be confined to a single state, when the state authorities grant the consent, and are subject to government supervision, by the inspector of the state where the head office is located. These inspectors have free access to all the affairs of the bank and may send a representative to the general meeting of stockholders, and to sittings of the boards of directors. They also approve the appointment of auditor and his assistant who are charged with the duty of seeing that debentures are properly issued.

Loans are restricted to real estate in Germany, first mortgage only, not to exceed 60 per cent. of the value of the property, estimated at its selling price, the income, when properly managed, being paramount consideration.

Each mortgage that secures a like amount of bonds shall be recorded with complete details in a special register. In the first month of each calendar half year, the auditor shall certify to the inspecting authorities the mortgages which have been recorded during the preceding six months. Each bank has an auditor and assistant, appointed through the inspecting authorities after consultation with the bank.

The auditor shall satisfy himself that the mortgages used as cover have been duly entered in the mortgage register, and shall certify on each mortgage bond before issued that the cover exists, and has been recorded. The auditor is custodian of the mortgage papers, cash paid in redemption of loans, and is responsible for their proper care. He inspects the books and entries of the bank in so far as they concern the mortgage loans. Auditors are subject to the provisions of the Code in case of betrayal of their trust. Penalty for over-issue of securities is a year's imprisonment and $5,000 fine. Severe punishment is provided for failing to deliver to the auditor cash paid on loans, and to observe the provisions of law relative to the business.

The total issue of mortgage bonds shall not exceed the total amount of mortgages, one-half of which shall be amortized mortgages with a yearly amortization of not less than ¼ of 1 per cent. Property taken under mortgage debt can only be used as cover for one-half the purchase price by the bank. Mortgages paid up before due and not replaced immediately shall have substituted for them government bonds, state bonds or cash, the bonds being valued at 5 per cent. below the quoted prices.

The total issue of bonds shall not exceed 15 times the paid up capital and reserve. Bonds now in circulation amount to over $2,548,000,000 with interest at 3½ to 4 per cent. The average return on loans is from 4.22 to 4.33 per cent. Mortgages on building lots and uncompleted buildings producing no revenue shall not be used as cover for bonds for more than one-tenth of the total value of such mortgages, and shall not exceed one-half the paid up capital of the bank.

Co-operative Agricultural Credit Systems

ALL schemes of co-operative agricultural credit intended to assist the farmer by short time loans, are based upon the plan of the village or rural banks of Germany, commonly called "Raiffeisen banks," to distinguish them from somewhat similar institutions that confine their operations to larger places, and cater particularly to the small merchant and tradesman, and which are designated as "popular" or Schulze-Delitzsch banks. These village banks have had their largest growth in Germany, the place of their inception, and wherever are found conditions such as are incident to peasant life, small holdings, scarcity of capital, usury, and a general disposition to co-operate, they have fulfilled their mission admirably. Raiffeisenism is not for the large landowner, but the "little fellow" to whom small things are great.

The underlying idea is the collective guaranty of loans, each member becoming responsible in all his property for the debts of the bank, which feature is generally spoken of as the "unlimited liability."

Loanable funds are, in the main, secured by deposits, fully 85 per cent. of the working capital being so obtained. These deposits are made by the thrifty and non-borrowers, and those interested (as many are) in a good cause —at four per cent. Or, the funds may be collectively borrowed from joint-stock banks, as in Ireland, to be individually loaned.

Having in one form or another secured working capital (never by the issue of bonds as in the Landschaften, mortgage banks, or Crédit Fonciers), the group must be able to lend safely and at a rate slightly in excess of the cost. The expenses must, therefore, be minimized and losses reduced to a negligible quantity—quite the universal experience. The management must be eleemosynary, after the (old-time) manner of our mutual savings banks, profits, if any, being a secondary consideration to safety and service.

The need is not generally as pressing for long time loans as for credit for temporary purposes, the greatest good to the greatest number coming from the latter form of credit.

In co-operative credit operations of the latter class, it is needful that the following principles be observed:

(a) The membership must be selected, not "select." Inasmuch as the rule is, "all for one and one for all," the trustworthy only can be admitted; and since every member is a possible borrower, he must be a *good* member or he becomes a *poor* borrower.

(b) The territory must be restricted, so that the personal equation may be much in evidence; for the inspection system, which has proven a bulwark of safety, depends upon intimate knowledge of borrowers, their habits and their trustworthiness.

(c) The money must be loaned only for productive purposes, which will bring in a return sufficient to repay the loan, the interest charge, and leave a profit to the borrower.

The purpose of the loan must not only be productive, but must be carried out, and the "committee of inspection" will see that this rule is observed; therefore,

(d) Close and constant watch is maintained on all borrowers to see that credit facilities are not abused. By reason of this feature the losses have been eliminated. Lastly,

(e) The borrower must, except in rare instances, furnish sureties.

Not every loan has all these desirable attributes, but some combination of these principles must exist to make the risk safe according to the co-operative idea of credit. Misapplication of funds is financial suicide, and the inspection system, which would seem to savor of espionage, seldom results in a hurt,—it is like the strap behind the door,—there all the time to enforce obedience, but seldom used.

Prompt payment is insisted upon, and business principles constantly instilled into the minds of the members.

Over and above all these principles and precepts, and locking them together, is the unlimited liability feature (considered by many the keynote of the success attained), whereby each, by pledging himself and his property "up to the hilt," makes the combined credit so good that it not only becomes cheap, but the liability seldom, if ever, called into play. Ninety-two per cent. of the German banks are of the unlimited sort. Also, may be mentioned as desirable, but not necessary, an intense religious atmosphere, generated by a code of moral and educational doctrines.

Conditions favorable to co-operative agricultural credit existing in Italy, France, India, Austria-Hungary, and Ireland, this form of banking has succeeded. Next to Germany it has had its most notable achievement in Italy. In Ireland it has now become firmly established, and in France it has had a fair measure of success. Canada has a few scattered societies, while in Massachusetts, after four years, there are but 33 societies. A few Jewish colonies in New York and Connecticut are experimenting with the idea, while in England it has never seemed to "fit."

The Village Banks

(RAIFFEISEN BANKS)

NATURE was unkind to the bleak forest district of Westerwald, Germany. The soil was poor, the people were poorer. They were ill-clad, ill-housed, ill-fed, ill brought up, and barely eked out a miserable existence. To their poverty was added famine, which swept over the country in 1846–7, leaving its trail of desolation.

The usurer was there to take advantage of the situation, and soon the peasantry were at his mercy. Every cottage was mortgaged; most of the cattle belonged to the Jewish money-lenders; work was scarce; crops poor, and ruin stared the poor folk in the face. It was a usurer's hell.

A Moses appeared on the scene and in the person of the half-blind burgomaster, Frederick Wilhelm Raiffeisen, led the people into a promised land. He capitalized honesty and thrift and made it a business asset. He commercialized co-operation and made it practical. He first introduced a co-operative bakery; then a co-operative cattle-purchase association, "attacking the Jews in their stronghold;" but they still held their bonds and mortgages. He gathered $1,500 together with no little effort and set up his "village bank" and offered the peasantry money for all their needs—provided they would subscribe to his rules. From this humble beginning the idea has grown until it embraces the world.

Growth

The movement properly dates from 1849. The second bank did not form until 1854; the third in 1862; the fourth in 1868. In 1880 the idea began to spread rapidly, there being in Germany alone, 1,729 banks in 1890, increasing to over 17,000 in 1913, with a million and a half members. The annual "turn over" is enormous, being over $2,000,000,000.

In the drought year (1893) they did more to help the farmer than the State. The latter simply *helped* him; the co-operative banks helped him to help himself—a much better proposition.

The members are farmers, usually peasant proprietors. The minimum number required to organize a society is seven. The average in Germany is ninety-two per bank, the largest number in one society being 1,400.

Capital

Raiffeisen would have no initiation fee or capital stock, so the poorest could join; but share subscriptions and dividends were made compulsory, in 1876, by law; compliance with which was made possible by making the share value nominal—10 marks and voting all dividends to reserve, the "*stiftungsfond*."

The co-operative bank being primarily for the poor, and operated with the idea of service, not profit, the principle of share capital is, therefore, foreign to its purpose, and until 1876, as above stated, no shares were issued. The Darmstadt Federation has, however, recommended shares not higher than 500 marks, but in few cases does the share exceed 100 marks. In 1909 the paid-up capital per member was 19 marks, but the amount varies with the locality. Where the liability is unlimited a member cannot take more than one share; where the liability is limited he may take many. The value and the number are fixed by the rules. Shares are repayable upon withdrawal from the society and interest is allowed at a rate not exceeding the rate paid by borrowers. As a rule, no entrance fee is charged, but the Darmstadt Federation allows a small entrance fee which is immediately carried to reserve.

The working capital is composed of (a) share capital, which in 1909 contributed 1.2 per cent. of the total available funds; (b) reserve, 2.6 per cent. of the total being in the nature of undivided profits, or surplus; (c) deposits on current account, which constituted 9.8 per cent. of the total; (d) savings accounts which formed 75.2 of the total; (e) loans from central banks and other sources. These amounted to 11.2 per cent. of the whole. It will thus be seen that a large part of the working funds is accumulations of the members, fully 85 per cent. being so obtained, out of over two billion marks placed at the disposal of the German farmers. The business is therefore carried on on very slender capital and according to financial ethics, "top heavy"; but the unlimited liability cures this defect.

Management

The management is as simple as it is effective. The administration devolves upon the following: (a) Committee of Management (usually consisting of five); (b) Council of Supervision (which audits accounts and supervises); and (c) General Meeting (which elects the foregoing). The executive work is done by the treasurer, who is the only salaried employee, and a typical "bank" is a corner in some farmer's house (or barn) with the treasurer the only attendant, sitting two or three times a week. Appointing power for the society rests with the General Meeting, which

names the Committee of Management, the Council of Supervision, and the Treasurer. The conduct of the business rests upon the Committee of Management, composed of the best people in the district. In 1909 the expenses averaged but 638 marks per bank, running from an average of 244 in one section to 1400 in another.

Loans

The business of the rural banks consists largely of loans to members, membership being requisite to borrowing. Loans on current account constitute 28.3 of the total; those for fixed periods amounting to 71.7 per cent. of a total outstanding of over 1,508,442,000 marks.

Loans are made on furnishing sureties, deposit of valuables, mortgage security, or on mere promise to pay, the former being preferred. The period for short credit runs from six months to three years, mortgage loans extending up to ten years. The safeguards are found in the limited scope of operation and the mutual supervision.

Dividends

The Raiffeisen system does not contemplate the distribution of profits, other than the payment of interest on what would be termed savings, or interest bearing accounts, all the corporate profits being carried to reserve. Seven-eighths of the profits (8,000,000 marks) were so apportioned in 1908–9. On dissolution the surplus would be devoted to some public purpose. Where shares are issued, a dividend not to exceed the maximum interest charged borrowers, is allowed, in no case exceeding 4 per cent., and in many cases no dividends at all have been paid.

Federations

In order to spread the co-operative idea, federations have been formed, largely after the order of our state banking associations. The movement needed proper direction to make it effective and uniform in its methods. These federations embrace not only rural credit societies, but rural co-operative societies of every kind. The National Federation of German Co-operative Societies, founded in 1883, has its headquarters at Darmstadt, and in 1905 absorbed the Federation of Agricultural Co-operative Societies with headquarters at Neuwied, formed by Herr Raiffeisen in 1877; and there is now but one federation, which contained on June 1, 1910, over 19,000 co-operative societies, including 78 central co-operative societies, 12,896 co-operative credit societies, 2,077 co-operative distributive societies, 2,028 co-operative dairies and 1,885 co-operative societies of other sorts.

The societies first affiliate themselves with the Provincial Federations, and these in turn connect themselves with the National Federation. The provincial federations embrace the societies in a given district, and enjoy a large degree of autonomy.

These federations are supervising bodies, employing inspectors, who frequently audit the work, supervise the methods and as a whole, carry on a propaganda of organization and instruction.

In 1910 over 92 per cent. of the societies were organized into federations, there being 23,845 societies in all. The number of provincial federations affiliated with the National Federation was 41.

Central Banks

The function of the central bank is to control the flow of money. When the local society is in need of funds, it applies to the central institution; when it has a surplus it deposits with it, and the central bank therefore acts as a regulator or balance wheel of credit. And in this regulation it does not conflict with the work of the federations, whose functions are not capitalistic, but educational and supervisory. The central banks are usually connected with the federation of the district through the managing officials, who are generally identified with both.

In 1910 there were affiliated with the National Federation 36 provincial central banks, and in a broad sense, the central banks perform the same functions for the rural banks that the rural banks fulfill for their members. Their funds come from the deposits of the rural banks and loans from general central banks or Prussian Central Bank, and other banks and bankers, the largest item being the deposits of the members, which in 1910 formed 71.3 per cent. of the total. At the end of 1909 the Provincial Central Bank had 182,000,000 marks outstanding on loans.

There are two general central co-operative banks which extend their operations over the whole Empire. These are the Central Agricultural Loan Bank of Germany, with headquarters at Berlin, and founded in 1876 by Raiffeisen and the National Bank for Co-operative Societies with headquarters at Darmstadt. The latter deals almost exclusively with 36 provincial central banks, while the Berlin bank deals with about 4,400 rural banks of the pure Raiffeisen type scattered over the whole of Germany.

The Popular Banks

(SCHULZE-DELITZSCH BANKS)

IT must not be inferred that the Raiffeisen banks are the only institutions affording credit facilities of the co-operative order, for the Schulze-Delitzsch banks ("urban" or "popular" banks in Germany and "Banche Popolari" of Italy) have had phenomenal success. While the village banks are composed entirely of farmers, the popular banks include all classes. At the beginning of 1911 farmers and farm laborers constituted 29 per cent. of the membership, while artisans, merchants and manufacturers formed over 42 per cent. of the total. The average membership in 1910 was 639 per bank.

The Schulze-Delitzsch movement began in Germany about 1850 simultaneously with the Raiffeisen idea. They have a wide range of operation, covering broader territory than the village banks, do all sorts of banking business, and are particularly intended to operate in towns and cities. They can hardly be called philanthropic institutions, the idea of the founder being that share capital was requisite to safety as well as their greatest usefulness, and profit should be the legitimate result of the co-operative endeavor. Therefore they accumulate considerable capital (1,500,000,000 marks at the end of 1910, an average of 1,500,088 marks per bank) and distribute fairly high dividends to stockholders, in contrast with gratuitous management, nominal capital and no dividends in the Raiffeisen system.

The general congress of Popular Banks in 1896 recommended shares of at least 300 marks, subsequently increased to 500 marks, limiting the liability to three times the amount of the shares. The average share capital is about 360 marks. The liability may be either limited or unlimited. Out of 939 banks of this character in 1910 with over 600,000 members, 567, or 60.3 per cent. were of the unlimited sort, although limited liability is steadily increasing. The share capital in 1910 constituted 14.8 per cent. of the total resources, and reserve fund 6.5 per cent.

The primary purpose of these banks is to grant short time loans, the turn-over in 1910 being over 4,000,000,000 marks. The security is generally personal, not real, mortgage loans forming scarcely 10 per cent. of the total. Surplus funds are deposited with other institutions or invested in securities, or used to purchase acceptances. In 1910 the sums so deposited amounted to 61,000,000 marks, securities 98,000,000 marks, and acceptances 22,000,000 marks, making a total of 181,000,000 marks of quick assets. In 1910 these banks earned 8.60 on their capital, distributing the greater part as dividends. The dividend rate varies from 5 to 7 per cent. In 1910, nineteen banks distributed more than 10 per cent. and one 25 per cent. The total business of these banks amounted to 13,566,182,463 marks and the loans granted during the year totaled 4,191,761,988 marks.

A great majority of the Schulze-Delitzsch banks are affiliated to 32 provincial federations, which in turn are affiliated with the General Federation of German Co-operative Societies. These provincial federations include not only co-operative credit banks, but co-operative distribution societies, productive societies, and co-operative building societies. In 1911 there were 1,514 co-operative societies embraced in the federations, of which 973 were credit societies.

Central Banks

The need of central bank facilities has not been as apparent in the popular bank movement as in the case of the village banks, the former having better facilities for obtaining needed assistance in the open market. Up to 1911 only three provincial federations had established central banks whose importance is not great.

To facilitate the movement of funds in and out of the popular banks the Dresden Bank has established a department which opens current accounts with these institutions, acting as sort of a clearing house.

In Austria the popular banks are of no great consequence in agricultural operations, being supplanted by the Raiffeisen banks, but in some instances make fairly large loans to farmers. The small loans are, therefore, made exclusively by the rural banks. In 1910 there were over 2,700 of these banks in Austria having limited and 588 with unlimited liability. The membership in 1908 was over a million and a half.

In Italy they include all classes, 22 per cent. being small farmers. The share value varies from 5 francs up to 100 francs. They are exceedingly popular as savings banks and allow checking privileges. The interest paid on deposits runs from 3 to 4 per cent. and the rate charged on loans from 4 to 6 per cent. The credit operations take the form of loans, discount of bills, collateral loans, guaranteed loans, etc. The history of these popular banks particularly in Germany and Italy, is full of romance and human interest.

Agricultural Improvement Banks

(LANDESKULTUR-RENTENBANKEN)

THE agricultural improvement banks are, as their name implies, public institutions which supply the necessary capital for carrying out agricultural betterments by means of loans. They date from 1861. They work on the principle that the fertility of the soil can be greatly increased by the application of capital, such application to take the form of drainage systems, irrigation, fertilization, good roads, dykes, water courses, aids to navigation, etc. Such improvement credit must naturally be for long time, so that the loan may be repaid from the enhanced income.

These loans are essentially second mortgages, and cannot be handled by the other land credit institutions. In Bavaria, Saxony and Hesse they are state institutions. These banks give unrecallable amortization loans for agricultural improvement, and obtain capital by issuing bonds payable to bearer, which are gradually redeemed from amounts paid in by the debtors.

The question arises, what is the position of the first mortgagee, if the land is already mortgaged, and the added productiveness belongs in equity, not to the first mortgagee but to the Landeskultur-Rentenbanken? Not only is the first mortgage strengthened, but the German laws do not compel the mortgage creditor to give precedence to any claim of the improvement bank for improvements installed by the owner out of funds supplied by it. In the case of Prussian drainage loans, and all Bavarian loans for these purposes, detailed proceedings are provided for having interested parties declare whether or not they will yield precedence to the claims of the Landeskultur-Rentenbanken, and those who do not object within a certain time are assumed to agree to the grant of this priority privilege.

Where the individuals may not be able to make use of this form of credit, by forming a corporation, they may avail themselves of the same; for the obligations arising from membership in a public company or corporate body take precedence over existing private debts. It is therefore provided in law that Landeskultur-Rentenbanken loans may be made to city and country corporations and public companies without mortgage security.

In order to safeguard the risk, where no legal prior lien exists, the limit of loans is fixed; as for instance in Prussia where the limit is 25 times the income of the land tax, or one-half the value of the real estate on special appraisal, the increase in the value resulting from the enterprise being taken into consideration. The security is considered sufficient if the loan is less than three-fourths the original value, or one-half the resulting value. Loans are made in either cash or bonds and the principal paid by amortization, the period and payments being subject to agreement.

The guarantee of proper use of the money rests in the case of corporations, or communal undertakings, upon the public nature of the borrowing institution. In the case of private borrowers, the general ability of the borrower, his record and the nature of the improvements are sufficient safeguards. In some cases the plan of improvement and time necessary to complete the work, together with probable cost, is submitted with the application.

The Prussian Central Landschaft

THE Prussian Central Landschaft belongs technically to the mortgage banks and is the largest of these institutions. The society was founded in Berlin in 1870 for the purpose of granting land and communal district loans.

The Society is authorized to conduct the following business: (a) To lend money on land and buildings in Germany and German Colonies, for fixed periods or on the instalment plan. (b) To lend money to Prussian Provinces, Towns, Cities, Improvement Companies and other Prussian public corporations. (c) To lend money to German railroads on pledge of the road as security. (d) To issue debentures secured by the above-named obligations.

A number of credit bank undertakings without risk are also allowed, but the acquisition of land is permitted only in special cases.

The original capital was 36 million marks, increased from time to time until now it stands at 44,400,000 marks, which may still further be increased to 60 million marks. On the basis of 36,000,000 marks capital, the Society is empowered to issue: (a) Central Mortgage bonds and railway debentures up to 20 times the capital. (b) Communal obligations up to 24 times the amount of the paid-up capital, provided this figure (24) includes class "a."

At the end of 1912 the outstanding obligations were 982,374,750 marks, the mortgages and communal loans at the same time being 1,021,727,553 marks.

PRUSSIAN CENTRAL LANDSCHAFT, BERLIN

Management

The management of the Society is vested in the president, assisted by three directors. These officials are elected by the Council of Administration and their names submitted to the Emperor. The Council settles all matters which are not within the powers of the president and the three directors. The Council now consists of 17 members, elected by the General Assembly of stockholders. The latter body declares dividends and has power to remove the chairman and the Council.

Mortgage Loans

The mortgage business is conducted as follows:

The society loans only on property the yield of which is permanent and certain. Mines and quarries are excluded. Mortgages suitable for cover for mortgage bonds under the mortgage law are entered in the mortgage register, thus separating them from other assets of the society, for the better protection of the mortgage bond holders.

Loans are made up to 60 per cent. of the value of the property. On agricultural property the limit is two-thirds. Loans are also made on vineyards, woods, and other property whose value is determined by productiveness, but are limited to one-third the value. All loans made on land are installment or amortized loans. In obtaining a loan, the applicant must present documents showing him to be the owner, maps, proof of appraised value, yield in grain, tax receipts, etc., and the policy of insurance. If this evidence is satisfactory, formal application paper is made out. The appraisal follows, but under certain conditions personal inspection is not required, but usually obtains. The principal points considered in the appraisal are: The location of the buildings and their relationship to the property; general condition of the soil; the relation of the tilled soil to the meadows and pastures; condition of the buildings; past and present inventories of the estate; whether present buildings are in keeping with the general condition of the property and whether of sufficient size. Transportation facilities, prices for crops during past ten years, roads, distance to market, salaries of employees, climate and general working conditions are also factors.

When all these features have been considered and passed upon, an estimate is made of the value and the amount of loan is determined. The bank pays borrowers in cash.

The installments (which must be at least one-half of one per cent. yearly) and interest are payable semi-annually.

The society cannot demand payments at its pleasure, as long as the security remains unimpaired. The amortization plan gradually reduces the debt, prompt payment being required. In case of lapse the society may demand the principal on 3 months' notice.

It is optional with the debtor to pay after ten years, at once or gradually. This proves advantageous to him, for when interest rates are low he may borrow elsewhere, and when high he cannot have the rate raised.

The Prussian Central Landschaft has been endeavoring since its organization to bring about a general use of amortized loans, and the satisfactory experiences with this method of lending show that this principle is becoming very popular. Up to the close of 1912 there had been made 10,510 amortized country loans amounting to 273,802,270 marks.

No direct tax is levied on banks as land credit institutions, but as stock companies the regular taxes are paid. The mortgage bonds and coupons are traded in on the exchanges and must be stamped according to law.

Supervision

Governmental supervision under the law of July 13, 1899 is of great importance in the affairs of the society, the business being supervised by a government commission since its formation.

The Prussian Central Landschaft was instrumental in enacting the present mortgage bank law of Germany, the principal features of which are:

Corporations formed to lend on mortgage security and to issue debentures against the same require the permission of the government to organize.

Governmental supervision covers all phases of the banks' business, and the inspectors have wide powers of audit. In Prussia the supervision is under the Minister of Agriculture, but the active management rests with the government representative. In Berlin the police president supervises, but the actual work is performed by bank examiners, whose duty it is to keep the operations of the bank within the law, test the transactions and periodically to review the work of the bank.

The supervising board is empowered to do all things necessary for the proper protection of the bank and keep it within the law. It may prevent the execution of a decision, withhold dividends, forbid the issue of debentures, and exercise other powers stipulated in the law.

BAVARIAN HYPOTHEK BANK, MUNICH (BAYERISCHE HYPOTHEKEN- UND WECHSEL-BANK IN MUNICH)

MAIN BANKING ROOM — (KASSENHOF DER KAUFMÄNNISCHEN ABTEILUNG)

DIRECTORS' ROOM (DIREKTIONS-SITZUNGSSAAL)

The Bavarian Mortgage and Exchange Bank

(BAYERISCHE HYPOTHEKEN UND WECHSEL-BANK)

AFTER an unsuccessful attempt to foster agricultural loans by means of co-operative mortgage associations, the Bavarian Mortgage and Exchange Bank was chartered in 1834, with combined powers of making mortgage loans, transacting a general banking business and issuing notes.

King Ludwig I was one of the charter members. The original capital of $4,000,000 has been increased from time to time, so that it now stands at $14,292,000 with reserve of $13,420,188, and total assets of over $309,000,000. On January 1, 1913, it had outstanding 74,033 mortgage loans, amounting to $273,073,795, of which 42,915 were farm loans amounting to $61,552,187, giving it rank among the largest of the land mortgage banks of Germany.

The charter originally segregated three-fifths of the capital for use in making mortgage loans, at a rate of interest not to exceed 4 per cent. The reserve was placed at not less than 7½ per cent. By 1862 all of the capital had been employed in making mortgage loans, and to secure much needed additional funds, the bank was then authorized to sell its debentures and guarantee interest and principal on the same, "a blessing for land ownership in Bavaria for all time." The circulation, of these mortgage bonds was begun in May 1864, and now amounts to $269,930,765. These certificates are redeemed in the same amount as mortgage loans are paid off, and are legal investments for trust funds, being held largely by individuals, trustees, village corporations and societies of all sorts. Interest on the bonds is at the same rate as on Bavarian Consols, deducting perhaps a rate of exchange of 1.5 per cent., being one-half of one per cent. less than the rate charged on loans. This difference covers the cost of operation and affords the banking profit.

The Bavarian banks have found the farm loan the most desirable, farm properties taken under foreclosure during the past ten years numbering but thirteen. The farm loans average $1,366.50.

Appraisals

Appraisals are facilitated by complete public records covering real estate values and productivity, made eighty years ago, and even yet used as a guide to values. In order to save costs, small farms are appraised in regard to their producing power and assessed valuation, the former being obtained from the records of the annual sales of produce from the farm. Buildings and exterior conditions are appraised from the state fire insurance and local records. Village authorities are sometimes asked to report the general condition of the land and buildings, and all such efforts are supplemented, as occasion requires, by personal inspection; but the costs are reduced to the lowest consistent with safety. No loans are made on timber land unless assurance is furnished that State supervision will prohibit deforesting.

Amortized Loans

Amortized loans are granted on farm lands only, the period being usually 52 years. The interest rate is now 4½ per cent. The loan, is uncallable, and costs, which are nominal, deducted before the proceeds of the loan are paid over. Payment is made in cash or bonds at the borrower's option, but cash payments predominate. The costs of obtaining the loan (always paid by the borrower) may be paid in yearly installments of one-half of one per cent. of the amount borrowed. These costs include the difference between market price and par (if bonds are selling at a discount), the selling commission, the stamp tax (1½ per cent.) and the "warrant tax" (about 1-50 per cent. per annum). Fourteen days' grace are allowed on all payments. The limit of loan is 50 per cent. of the appraised value.

This bank like many others of the same type in other countries has a speedy method of foreclosure. The mortgage deed properly verified and recorded is subject to immediate enforcement upon failure to observe its conditions. The interests of the debtor are conserved by auction under direction of a state notary. Upon foreclosure sale, the bank is empowered by law to collect the debt from the purchaser, but if the buyer and original owner agree that the buyer assume the debt, the bank may take its choice, unless the security is so good as to allow their wishes to be complied with. Arrears of interest carry 5.7 per cent.; taxes 1 per cent.; costs of public sale 4 per cent.; depreciation in value due to over-cropping and neglect at least 15 per cent.; low productivity of ensuing years 5 per cent.; loss of credit standing, due to foreclosure and sale and scarcity of bids, about 10 per cent.; making a total loss in value of from 40 to 42 per cent. The Imperial Banking Laws of 1899 were largely formed from the experience of this bank.

France

THE first mortgage bank in France dates from 1818, coincident with the beginning of our savings bank movement. The bank assumed the firm name of Deleuze, Briot & Co., becoming a joint-stock company in 1820. It made loans for 20 years at 4 per cent. plus amortization charges. It paid the borrower in obligations redeemable one-twentieth each year. It failed in 1848, due to bad operations and inadequate mortgage laws.

In 1850 a Congress of Agriculturists was called to provide a plan to secure flexibility to mortgage credit, and favored the idea of long term amortized loans. Numerous fanciful plans were presented to the National Assembly about this time to convert real estate into a circulating medium, through the issue of notes based on landed security and making them legal tender, all of which failed to pass.

The existing defects were cured in 1852 by decrees authorizing land credit societies with government control, and providing: (1) That borrowers should have the option of discharging the debt by annual payments.

(2) Each land credit association to have limited territory.

(3) These associations to have the right to issue debenture obligations.

(4) Loans only to be made on first mortgages, and not to exceed one-half value of the property. These features underlie all successful land bank operations.

The problem at the beginning was to determine whether it was more advisable to form companies of borrowers—syndicates of landowners, like the Landschaften of Germany, to issue certificates to those who borrow, said certificates to be sold in the open market by the borrower; or a company of lenders who borrow on their own credit instruments, properly secured, and lend at a higher rate, thus making a profit for the lenders, contrary to the underlying principle of the Landschaften idea, that no profit should accrue, mutual good being quite sufficient recompense for the risk assumed; and, should it be one large institution, or several small ones? Centralization being characteristic of France, the movement resolved itself into one nation-wide institution with special privileges.

The Crédit Foncier

THE Crédit Foncier of France is the largest and best known institution in the world making mortgage and municipal loans from the proceeds of debenture bonds sold in the open market. It is the model for all similar institutions. Its distinguished position is due to two causes: Monopoly and lottery. It is the only bank in France issuing debenture bonds secured by mortgages on real estate and municipal obligations, certain of which debentures carry special prizes in the periodical drawings, thus making a wide and steady demand for these securities at a low rate of interest, usually 3%.

It was formed in Paris (1852), with a capital of 25,000,000 francs. The principal bankers of Paris were stockholders, and it took the name of *Banque Fonciere de Paris*, or *Societie de Crédit Foncier*.

Other associations of the same kind were formed at Marseilles and Nevers, and others were on the point of organizing when, on December 10, 1852, a decree was issued, extending the privilege of the Crédit Foncier to all the departments where institutions of this kind had not yet been formed, and authorized it to take over the two companies at Marseilles and Nevers. The name was changed to *Crédit Foncier de France*, and thus it became a monopoly, receiving a grant of 10,000,000 francs from the State. The guaranty fund was placed at 60,000,000 francs, and it undertook to make mortgage loans to the amount of 200,000,000 francs, including interest, sinking fund and administrative expenses, so as to liquidate the debt in 50 years.

The bank worked on the theory that it was strong enough to fix the rate of interest on capital, but found that in this it was mistaken. An issue of 200,000,000 francs was unsuccessful, and in 1853 the 5 per cent. rate was modified, and a sliding scale adopted, based on the average market price of government 3s. The organization did not pay as yet, 1852–1854 being an unfavorable period. Bad harvests, war, the emission of numerous other securities increased the rate of interest, and made the placing of Crédit Foncier bonds difficult. To remedy the situation, a system of monopoly with state control was instituted, and on July 6, 1854, a decree bestowed on the Crédit Foncier an organization similar to the Bank of France, and the scheme of operation as outlined below was adopted and, in its fundamental points, so remains. The monopoly was not renewed at the expiration of the 25-

year period, but all its original privileges remain, the principal of which is the prize awards to lucky numbers in the redemption drawings.

The Theory of its Organization

The most important features are taken from the Landschaften of Germany, the main difference being in the fact that it is not co-operative and works for the profit of its shareholders. Its great success is due to the amortization of its loans, the annuities being paid into a sinking fund to redeem debentures, which must be retired as fast as loans are paid. The underlying principle of land bank operation is this: Capital invested in land can be regained but slowly, from the income of the property, and loans made on grounded security should, therefore, be of long duration, part of the investment being repaid each year from the income of the property, until the loan is automatically reduced to nothing. The scheme is exceedingly simple: Sell debentures in the open market; with the proceeds grant loans; with the annuities of the loans redeem the bonds, and so on *ad infinitum*. As the demand increases, new issues are put out, the amount of debentures outstanding being balanced by the loans unpaid, and *vice versa*. Therefore land credit, which is a slow, immovable form of credit, becomes liquid like other forms of credit—a most essential element in all credit operations.

The only danger lies in making unwise loans, resulting in foreclosures, so that the assets shall take the form of real estate holdings, everywhere recognized as undesirable from a banking standpoint. The debtor must keep his engagements if the bank is to keep its contracts. The realty, therefore, must be productive, well scattered, well located, and well kept; waste and decay prohibited, and the property conservatively appraised. The amortization feature (introduced into France in 1835, by Louis Walowski, who borrowed the idea from Germany, where it had been in operation since 1770), largely overcomes many elements of risk, for as the property grows older, the risk is likewise lessened, and if the original value is maintained, the margin of safety constantly grows larger. In capitalizing this idea the Crédit Foncier has led the world.

It must not be inferred, however, that this is the only institution that assists the agriculturist in France; for, as a matter of fact, only about 20 per cent. of its loans are rural, and at least three types of banks are in operation, all tending to assist the farmer. These are: The *Credit Agricole*, the societies of the *Rayneri-Rostand* type; and the *Durand* banks, the latter two being of the co-operative sort.

Co-operative credit, however, while quite an original idea with the French people, has never had the growth characteristic of this form of banking, particularly in Germany and Italy. "We have many ideas," says a Frenchman, "but when it comes to applying them in the realm of fact, a strange timidity is evident."

The Lottery Feature

The object of the lottery feature is to provide a wide and active market for the bonds at a low rate of interest. Intrinsically they are on a par with government securities, and would be a premier investment because of the underlying security; but it is readily apparent that with the possibility of holding a lucky number, the element of chance enters to make the ownership not only safe but possibly highly remunerative. Thus in 1911 one bond drew a prize of $40,000, and the issues, in spite of what would, at times, be a low income rate, are in great demand, the issue of $100,000,000 in 1912 being 18 times over-subscribed.

These drawings are made by means of wheels about 5 feet in diameter and 39 inches thick, resembling a drum revolving on its axis. The sides are composed of two pieces of glass with wire mesh in between, the framework and pedestal being of bronze.

When an issue of bonds is put out, a new wheel is constructed, into which are placed by mechanical means each of the numbers appearing on the bonds of the series. These numbers are either on small slips of parchment, rolled and sealed at the ends, or slips of Japan paper enclosed in brass or copper tubes, also sealed. The interior is reached through a tiny door with safety lock and seal, opened only by three keys, one being held by the governor, one by the board of directors, and one by the committee of censors. Drawings are public, and long before the appointed hour the drawing hall is crowded with anxious and possibly successful bond holders, who may draw the coveted first prize and a small fortune. At the time of drawing the wheel is placed in full view of the audience, given a few turns to mix the numbers, the seal is examined and broken, the door opened, and a little child from a public asylum with bared arm draws, one by one, the designated number of cylinders. The numbers are called off and are afterward published. The door is again sealed and locked until the next drawing. Every effort is made to make these drawings

above suspicion. The annual drawing consists of 4,362 numbers, the total distributions averaging 40,000,000 francs in prizes of 1,000, 5,000, 10,000 25,000, 50,000 100,000 and 200,000 francs.

In 1860 the Crédit Foncier loaned its support to the formation of an organization for supplying capital and credit to agriculture and allied industries. This "Crédit Agricole" rendered but trifling services to agriculture and soon threw itself into speculation. Between 1873 and 1876 it lent enormous sums to the Egyptian Government, obtaining the funds by receiving credit with the Crédit Foncier and depositing Egyptian securities. On the failure of the Egyptian Government to meet its payments, the Crédit Agricole went into liquidation and the Crédit Foncier suffered severely. The impracticability of the credit system, as worked out by the Crédit Agricole, to aid agriculture, was very marked, and as a consequence, agricultural credit operations are now carried on by the new Crédit Agricole elsewhere described. In 1881 the charter of the Crédit Foncier was renewed for 99 years.

Administration

The Minister of Finance has general supervision over the affairs of the Crédit Foncier, but the administration devolves upon a governor, appointed for life by the President of the Republic. He must own at least 200 shares of stock. His salary is $8,000 per annum, and he is the head of the board of directors. Two sub-governors are likewise appointed for life, who must own at least 100 shares of stock. Sub-governors receive $4,000 per annum each.

The bank is closely connected with the government, three directors being high officials of the Treasury Department. The board of directors consists of the governor and two sub-governors, three auditors and 20 to 23 directors, elected by the general assembly of 200 of the largest stockholders, who meet once a year to receive reports, elect directors, auditors, vote on increase of capital and amend the by-laws and constitution, etc. Forty of the above 200 stockholders constitute a quorum, if they hold one-tenth of the stock. Each member has one vote to every 40 shares, but cannot cast more than five votes in his own name, nor more than ten votes in his own name and by proxy. He is allowed one vote even though shares held are less than 40.

Capital and Surplus

The capital is now $40,000,000, authorized to be increased to $50,000,000 and must always equal one-twentieth of the amount received for the outstanding debentures, of which it is the primary guaranty. The shares are $100 each, non-assessable, and cannot be issued below par.

One-quarter of the capital must be invested in French rentes, or other treasury bonds; one-fourth in office buildings of the society or loans to the French colonies, or securities deposited with the Bank of France as a guaranty for advances.

After paying 5 per cent. dividends, the bank must set aside between 5 and 20 per cent. to reserve until it equals one-half the capital.

The surplus may be loaned on mortgages, or to municipalities, or advanced to borrowers in arrears, or used to purchase mortgaged property under foreclosure, or buying commercial paper acceptable to the Bank of France.

Deposits

The Crédit Foncier may receive deposits up to $20,000,000, one-quarter of which must be kept in the government treasury, the balance in government paper, treasury bonds, commercial notes, and securities. The society also transacts a general banking and trust company business.

Debenture Bonds

The Crédit Foncier procures funds to itself by the issue of debenture bonds, both registered and coupon. It issues two kinds of debentures, those representing loans to private individuals on mortgage security being called "*foncieres*," and those representing loans to municipalities being called "*communales*." The smallest denomination is 100 francs, the largest 500 francs. They may be bought in installments (and if installments are regularly paid, the owner may participate in the drawings), and are the most popular form of investment in France. The length of the loans and rates of interest may be seen from the following list of bond issues.

Land loan of 1879, 3 %, due in 60 years.
Land loan of 1883, 3 %, due in 98 years.
Land loan of 1885, 2.6%, due in 95 years.
Land loan of 1895, 2.8%, due in 75 years.
Land loan of 1903, 3 %, due in 75 years.
Land loan of 1909, 3 %, due in 70 years.
Land loan of 1912, 3 %, due in 70 years.
Municipal loan of 1879, 2.6% due in 60 years.
Municipal loan of 1880, 3 % due in 60 years.
Municipal loan of 1891, 3 % due in 75 years.
Municipal loan of 1892, 2.6% due in 75 years.
Municipal loan of 1899, 2.6% due in 75 years.
Municipal loan of 1906, 3 % due in 90 years.
Municipal loan of 1912, 3 % due in 70 years.

It will be seen from the foregoing that the two forms of issue in a measure alternate, the only issues brought out simultaneously being those of 1879.

Borrowers have the right to pay in advance, and frequently do so, thus retiring a like amount of bonds. The bonds are legal investments for trust and public funds, and on account of the lottery feature have no fixed time of payment other than the maximum time before retirement.

Interest Rates

The rate of interest charged borrowers cannot exceed six-tenths of one per cent. more than the selling price of the debentures at the time of the loan. The charge to municipalities is 45-100 more than the debenture rate. The present rate is 4.30 for mortgages; 4.1 for public purposes; 3.85 for municipals.

Loaning Methods

The Crédit Foncier loans to individuals, corporations and municipalities. Mortgages given to it are exempt from decennial registration required of other mortgages, and it has a cheap and speedy method of clearing title of defects, and a speedy and inexpensive method of foreclosure. It may sell the property in case of deterioration. It lends only on first mortgage and makes no loans on theatres, mines, or quarries. Loans are limited to one-half appraised value. On orchards, plantations, etc., it loans only one-third. Factories are appraised without regard to their special adaptability.

The company also does business in Tunis and Algiers, and may enter into projects to improve agriculture and finance drainage operations. It lends money to a company of builders—the *Sous-Comptoir des Entrepreneurs*, on what we would term building loans.

The borrower cannot agree to pay a greater annuity than the total income of the property per annum. The company does a large business in short term (1-9 years) mortgages, without amortization, but its main purpose is to finance long term loans (10–75 years) both to individuals and municipalities amortized over a period decided upon at the time of the loan.

It may use the government treasury for the receipt of installments and interest payments and deposit of surplus funds. Government officials, paymasters, etc., attend to all operations in connection with collection of coupons (paid everywhere by the banks, freely), purchase and sale of the bonds without charge.

In 1912 the net profits were 15,960,000 francs, a gain of 2,800,000 francs over 1911. The society made 8,200 mortgage loans to individuals, amounting to over 235,000,000 francs, 7,900 being for long terms, and amounting to 232,000,000 francs. Mortgages are paid off at the rate of about 75,000,000 francs yearly.

Since its organization the Crédit Foncier has made 175,000 loans, aggregating 6,382,000,000 francs, of which 4,000,000,000 francs have been repaid. The communal loans in 1912 amounted to 317,500,000 francs, 100,000,000 francs being loaned to the City of Paris, and 72,000,000 francs to Tunis, the rate being 4.15 per cent. The total outstanding loans are now over $870,000,000.

The Credit Agricole

"THERE is not," says Wolff, in writing of co-operative credit in France, "a country in which more research, and labor, and money have been expended upon the quest of a practicable and effective form of paper credit, than France." The trouble has been that the authors lacked, not originality but perseverance—the perseverance of Raiffeisen and Schulze.

Since 1837 the French authorities have given attention to agricultural credit; but its real development begins with 1884, after the promulgation of the law on professional syndicates. In 1894 the law instituted local agricultural mutual credit banks and gave a powerful stimulus to the work. In 1899 the law on regional banks brought the bounty of the State to agriculture, and today the work of the Credit Agricole covers the country with a regional bank in every department, and over 3,000 local societies having an average membership of from 40 to 50. It is, in short, a distributing agency for a governmental subsidy.

The Origin and the Theory

A particularly favorable opportunity to bring state aid to agriculture occurred in the re-chartering of the Bank of France, which in the minds of the agriculturists, neglected them, and would not discount their bills—not because they were "farmer's notes," but because they were for long periods, and for small amounts and would probably have to be renewed. Theoretically it was a bank for all the people and had no right to exclude the farmer; therefore if the farmer could not come

to the bank, the bank must be brought to the farmer. As a result we have the Credit Agricole of France.

The idea is based precisely on the plan of an irrigation scheme; first the central reservoir, then the main branches, then the laterals, and so percolating through to the minutest part of the system. In this instance the Bank of France is the reservoir, the regional banks the branches, the individual societies or banks the final distributing agencies to reach the borrower.

In renewing the charter of the Bank of France in 1897, for a period of twenty years, it was required to advance to the State without interest, for a like period, the sum of 40,000,000 francs, and to make an annual payment of not less than two million francs (which in fact has been from 3 to 5 million francs), as a franchise tax; the original allotment to be refunded at the end of the charter period, namely 1920.

The object of the Credit Agricole is, therefore, to supply the French farmers with both long and short (principally short) time credit through the medium of local co-operative societies, affiliated with regional banks, established for the purpose of distributing the funds above mentioned. The regional banks loan to the local banks at 3 per cent., these in turn lend to the borrower at from 3½ to 4%.

In most cases of state aid, the channel through which it is to operate is existent when the aid is made available; here the channel had to be created—working from the top down instead of from the bottom up as usually obtains. And yet, while the Government would stimulate, and instruct, the final distributing agencies must come from a free and local effort. As a stimulus to encourage capital subscription it is provided that for every dollar of capital subscribed to the regional bank (only one-fourth of which need be paid up), the State will advance four dollars by way of loan without interest, five years to run. The result has been good; many local banks subscribing all their own capital to the regional banks, leaving themselves practically without working funds.

Local Banks

The local banks may be composed either of the whole or part of the membership of one or more agricultural syndicates, or mutual insurance societies, the object of which is to help one another by a mutuality of effort based upon mutual confidence and mutual needs. The area is limited to the commune, canton or village.

Capital

The initial capital of the local bank is formed by shares subscribed exclusively by members, as low as one-fourth being paid up. Shares are generally of 20 or 40 franc denomination, have no rights to dividends, but usually carry interest at not over 4 per cent. Seven men paying down 35 francs may form a local society. Deposits may be received with or without interest.

Liability is subject to choice of the society, but is generally limited to the amount of shares subscribed. Some banks have unlimited liability of the Raiffeisen order, or unlimited as to certain members; or liability of from two to four times the nominal value of the shares held. The tendency is to unlimited liability, this being the preference of the State.

As soon as the local bank is established, it becomes affiliated with the regional bank of the department by subscribing for a certain number of shares in the latter. It may then avail itself of the credit facilities of the regional bank, which discounts its bills and grants loans to form its working capital.

The membership in these local banks grew from 7,998 in 1901 to 151,621 in 1910, and the number of banks from 309 to 3,338. The capital fund in 1910 stood at 9,910,611 francs. The loans granted during the year amounted to 70,533,340 francs with 51,815,857 francs outstanding at the end of the year. Interest paid on shares varies from 2 to 5 per cent. and the discount rate from 3 to 5 per cent.

Administration

The local society is managed by a council unremunerated, which must meet weekly, preferably Sunday morning, and a committee, which generally comprises a president, vice-president and a secretary.

Reserve

At least three-fourths of the profits are allotted to the reserve until the same equals half the paid-up capital. The balance may be divided among the members pro rata.

Loans

The application approved by the local committee (*conseil*) elected by the members, is sent to the regional bank, whose committee is elected by the local banks of the district, and which generally has a "credit list" giving the limit of credit each member is entitled to, similar to a modern bank's credit department.

If the loan is granted, the applicant draws a bill on himself, endorsed by the local office, which is discounted by the regional bank. Bills are usually drawn for three months, renewed, provided the total period does not exceed two years, and one-half is paid at the end of the first year.

The local banks, therefore, have no "council of supervision" or "inspection," for the regional bank holds the keys to the credit chest, the local bank becoming merely a branch of the regional institution; but as a whole the system works well, in spite of the fact that the government has employed only 40 per cent. of the funds available, and the free use of this form of co-operative credit has had to be urged upon the people of France.

Regional Banks

The regional banks, whose sphere of action, as a rule, is co-extensive with a department are regulated by the law of March 31, 1909, which authorized them to receive from the State, out of the fund furnished by the Bank of France, loans without interest, up to four times their paid-up capital, for a period of five years, subject to renewal. Thus in a department where ten local banks have subscribed 10,000 francs, forming a capital fund of 100,000 francs for the regional bank (only part of which need be paid up), the bank is entitled to an advance of 400,000 francs. The regional banks are based upon the same principles as the local banks, and enjoy the same privileges. They are composed of local banks and of individual farmers, two-thirds of the shares being reserved by preference for the former. The local banks usually pay up their shares in full, the individuals, as a rule, only up to one-fourth. The interest on shares is limited to 5 per cent.

The bills of the regional banks may be discounted by the Bank of France, since they have three names attached when reaching it—the maker, the local bank, and the regional bank. They make loans to co-operative societies for the production of and sale of agricultural produce, and loans to individuals for acquisition and improvement of small holdings.

In 1910 there were 96 regional banks, and the sum placed at their disposal from 1900 to 1911 was 11,386,815 francs.

Methods of Operation

A special committee nominated by the Minister of Agriculture distributes the sums among the regional banks and a body of inspectors supervises their workings. The committee of management of the regional bank is elected from the representatives of the local banks.

There are three methods pursued in granting loans by the regional banks to the local societies: (a) When a member applies for a loan from the local bank (and to borrow, he must be a member of the local bank and an agriculturist, borrowing for agricultural needs, the test being as to whether or not he is a member of an agricultural co-operative society), it requires him to sign a bill which is sent to the regional bank to be discounted; the regional bank, if in funds, immediately forwards the amount applied for, less the discount. Or (b) the regional bank may grant a loan to the local bank proportionate to the amount of the shares subscribed. The local bank, if not in need of immediate funds, may deposit the money in the savings bank and draw upon it from time to time. The former is simpler and allows a greater measure of control and is the more generally in vogue. Or, (c) the regional bank being out of funds may endorse the instrument, making it "three name paper" and pass it on to the Bank of France for re-discount.

Thus in 1910 the regional banks discounted bills amounting to 67,000,000 francs, and granted loans only to the extent of 1,250,000 francs. The rate of interest on loans must necessarily be higher than the discount rate at the regional bank, the margin being usually about 1 per cent. The size of the loans is generally proportionate to the shares held, running from 10 to 20 times the amount. In some societies a maximum limit is fixed.

The Guaranty

The guaranty consists either of surety or deposit of securities, except where the guaranty may be waived. If the loan is to purchase live stock, the animals must be insured.

Bills may be drawn for three months with two to four renewals, depending upon the nature of the transaction. Some bills are drawn for the same period as the loan with no renewal.

The objects for which loans are granted are few, according to schedule; but permanent improvements—wells, drainage, irrigation, buildings, etc., for which the Raiffeisen banks encourage borrowing, are excluded once for all. Collective purchase and sale of fertilizers, food stuffs, etc. are particularly encouraged. The period of loan varies according to the purpose for which the money is borrowed, a loan to carry crops for a more favorable market

would be short; to purchase a cow, longer. Wolff says of this, "The method adopted is terribly wooden, rule-of-dumb and hindering."

Statistical

On January 1, 1911, the regional banks had at their disposal State loans amounting to 57,177,425 francs, 50,442,585 of which had been advanced for the purpose of financing the local banks. The working capital at the disposal of the regional banks in 1910 for financing local banks was 71,423,930 francs, consisting of:

Paid-up Capital . .	15,912,801	francs
Reserve Funds . . .	2,868,544	"
State advances . . .	40,442,585	"
Deposits	12,200,000	"
	71,423,930	

The subscribed capital amounted to 17,493,225 francs in 1910, about two-thirds being subscribed by local banks. About one-half of these banks have a paid-up capital of less than 100,000 francs. The interest paid on the shares runs from 3 to 4 per cent. The total discounts in 1910 by the regional banks, including renewals, was 136,865,263 francs, the rate of discount in 55 banks being 3 per cent. General expenses amount to .032 per cent. of the loans.

General Results

The general results during the ten-year test have been, broadly speaking, satisfactory, local banks constantly increasing in number and usefulness to the farmer.

Wolff, however, doubts if the original allotment will be paid when due in 1920 and will not have to be written off the books of the Bank of France as a bad debt. These banks placed about 384,000,000 francs at the disposal of farmers in the decade ending 1910, yearly advancement increasing from 2,000,000 francs in 1900 to 70,000,000 francs in 1910, although in the distribution of the "manna" favoritism and politics have had a voice. To offset this a "Credit Agricole Department" has been formed to deal systematically with all applications, directing and encouraging the work through committees under its direction. The tendency is to take what is given and use it rather than make the movement so strong that it invites its own working funds (deposits) by the security afforded (capital), so that in time the scheme may run without State aid. But it was ever thus with governmental subsidy.

Co-operative Agricultural Credit in France

RAIFFEISENISM in France found its chief exponent in the person of Louis Durand, a pronounced Roman Catholic, whose institutions take on a strong savor of Catholicism, and are the only French co-operative banks that have succeeded. Like their pure prototypes, they issue no shares and pay no dividends. Their loanable funds consist of the deposits, loans from members, interested parties and other banks, and the accumulated reserve, which when it reaches one-fourth the capital serves to reduce the rate on loans.

The clientele are small proprietors, or tenant farmers. The rate for loans is from $3\frac{1}{2}$ to $6\frac{1}{2}$ per cent., and interest on deposits is 1 per cent. less. Unlimited liability is the rule.

The commune is the sphere of operation, and the banks are combined into groups, regional or diocesan, forming central banks which act as supervisory and propagandist bodies, as well as regulating the flow of money. A Central Union of Rural and Workmen's Banks with unlimited liability has its headquarters at Paris. In 1910 the Durand banks numbered 672, with 18,279 members, "turning over" 19,241,903 francs. They received 11,300,550 francs on deposit and granted 9,396 loans. The total assets are 12,569,915 francs, the main source of capital being deposits.

As in Belgium, so in France, the idea was conceived that the initial fund for the work of the rural banks should come from the savings banks, and Eugene Rostand, president of the Savings Bank of the Bank of Rhone, urged his bank to establish local mutual banks and finance them. In 1895 the savings banks were authorized to set aside part of their funds for the use of agricultural credit, and permitted the bank to advance 20,000 francs by way of loans. From 1894 to 1909 there were thus created 22 banks, and from 1901 to 1909 these "Rostand banks" distributed 1,142,663 francs to farmers. There may also be mentioned the co-operative banks of the Alpes Maritimes promoted by Rayneri, and the Popular Bank of Mentone, besides isolated independent credit institutions.

Italy

AT the time co-operative credit for the farmer was introduced into Italy, conditions were particularly appropriate for its growth. Farm life was a constant struggle. Tillage, trade and family life were in a crude state. Farm implements were primitive, fertilizers scanty, fodder poor, cattle lean, rents oppressive, money scarce, and wages low; and the usurer, as usual, was in control, charging from 50 to 1,200 per cent. and often a Sunday dinner as a bonus. The poverty and ignorance of the peasantry were, and still are, almost incredible. After the depression of 1880 there was, according to Wolff, scarcely anything left to work for. Live as economically as he could, all the peasant's toil went to enrich the oppressor. To-day Italy has over 10,000,000 farmers out of a population of 35,000,000, and all are small farmers, and 65,000,000 acres out of a total of 71,000,000 have been made productive.

The First Rural Society
(Cassa Rurali)

The fame of the German village banks had crossed the Alps; but hearing the message they had to bring, the people lacked the faith (or a leader) to institute the movement.

It was not until 1883, in the Venetian home of Loreggia, that the first "Cassa Rurali" was started by Dr. Leone Wollemborg, with an enlistment of 32 members. To provide the first funds the Doctor advanced $400; to which was added some thousand dollars, which the bank managed to attract by way of deposits, supplemented by a loan of $800 advanced by the public savings bank of Padua. At the close of the first quarter's operations, great was the surprise of the borrowers to receive notice that their money had cost them 1½ per cent.—an incredible proposition! And rather than stint the accretions to reserve, they actually voted to maintain 6 per cent. interest, a rate somewhat higher than necessary. To-day there are over 1,800 of these banks in Italy, doing *one-half* the country's banking business.

The Organization

The Cassa Rurali are organized along the Raiffeisen lines, the associations at the beginning being smaller and more needy than those of Germany. The members meet oftener and administer the affairs more in common, being linked together in the bond of common poverty. Expenses are cut to the minimum, one bank's annual expenditure being less than $15. So high do these banks stand in popular estimation that the deposit money of the community, instead of finding its way into the postal savings banks, waits for the fortnightly meeting of the village bank, because *it is their own*. For loans they have nowhere else to go. To join the bank, a man need be but honest, sober, thrifty, trusted, well-behaved, and able to read and write—a little. The illiterate learn to write just to be able to qualify, for every member must be able to sign his name. Drinking is "*tabu*," and the rules demand guarantee of personal morality. Loans are usually made for three weeks, but can be renewed.

The Wollemborg banks were non-sectarian, but from 1892 onwards many banks were formed as the result of the propaganda of the Catholic Party, and have increased steadily until they form the dominant class, numbering 1,200 out of the 1,800 village banks of Italy. The Catholic banks, while holding to the character test, also advocate certain religious observances—at least, respect for religion.

Following the Raiffeisen idea, liability is unlimited. Deposits are received from members and non-members, the interest rate being from 3½ to 4 per cent. On January 1, 1911, the deposits amounted to 60,000,000 francs.

Loans are made for short periods, not exceeding two years, renewed every three months, extending up to ten years, on the installment or amortized plan. The rate is from 5½ to 7 per cent., the profit going to reserve, or on dissolution, to some public purpose.

There is a slight departure from the true Raiffeisen order, a "sindaci" being established, five in number, who must not be in any way related, by consanguinity or affinity, to any member of the managing committee, within the fourth degree. The sindaci acts singly, looking after the affairs of the bank daily, thus bringing an intermingling of reviewing and administrative functions.

The Executive Committee consists of a President, elected for four years, Vice-President, and five members, elected for two. A modest share capital is recommended, in addition to a small non-returnable entrance fee. In the main, however, they follow the Raiffeisen type, with simple borrowing and lending, careful checking, low operative expenses, caution in granting credit, risks avoided, with the result that losses have been scarcely perceptible.

Japan

WHEN modern Japan awakened to the need of western methods for her industrial and commercial development, she delegated her ablest men to study the systems of business in every leading country and adopted them with such modifications as seemed desirable for her special requirements.

Thus she created a great central bank for the currency function, the regulation of discount rates and the supervision of the local commercial banks; then a special bank was established for the financing of the foreign trade; then a colonial bank, a national mortgage loan bank, a national industrial bank, and local agricultural and industrial banks. There are also private savings banks and a postal savings system. Thus there was worked out a consistent and comprehensive scheme of finance that has helped enormously to build up the empire. It was an example of wise despotic government working out beneficially.

The Hypothec Bank of Japan
(NIPPON-KWANGYO-GINKO)

THE Hypothec Bank of Japan is a stock corporation created in 1896, to make long-term loans on real estate mortgages at low rates, particularly to agriculturists. It may make such loans for periods up to fifty years, repayable in installments by amortization, or for five years repayable in one sum; it may also lend to municipalities on their bonds, and to the agricultural and industrial banks on debentures which they are permitted to issue; it may also receive trust funds and invest them.

Capital

The bank has a capital of 20,000,000 yen ($10,000,000.) divided into 100,000 shares of 200 yen ($100.) each.

Loans (Restrictions)

All mortgages must be first liens, and property must yield a sure and permanent income. Limit of loan, two-thirds the appraised value as made by the Bank. Fishing rights subject to same ratio.

With the exception of loans made on security of lands or buildings, and the mass of properties belonging to factories, the total amount of loans made on security of land or buildings in places subject to municipal administration and in towns designated by Imperial ordinance, may not exceed one-half the total paid-up capital and debentures issued.

No loans are made on land falling under Art. 4 of the Land Tax Regulations of 1884. No loans are made on schools, temples, hospitals, theatres, and other public buildings, and the sites thereof.

No loans are made on mines, collieries, quarries, swamps, mineral springs, commons and property owned jointly, except on consent of all interests. Loans are, however, permitted on fish hatcheries yielding a sure income.

The borrower pays the expenses of appraisal. The property must be insured except in cases where, in addition to the primary security, property double the value of the loan is offered as collateral. Any alteration in the form of the security, any change in title, without consent of the bank, subjects the loan to immediate call.

Except in case of prefectures, counties, cities, towns, villages or other public bodies and arable land readjustment associations, no loans in excess of 10 per cent. of the paid-up capital may be made.

Loans paid in part or whole before due according to the original contract are subject to a small fee, not exceeding two per cent. of the amount repaid.

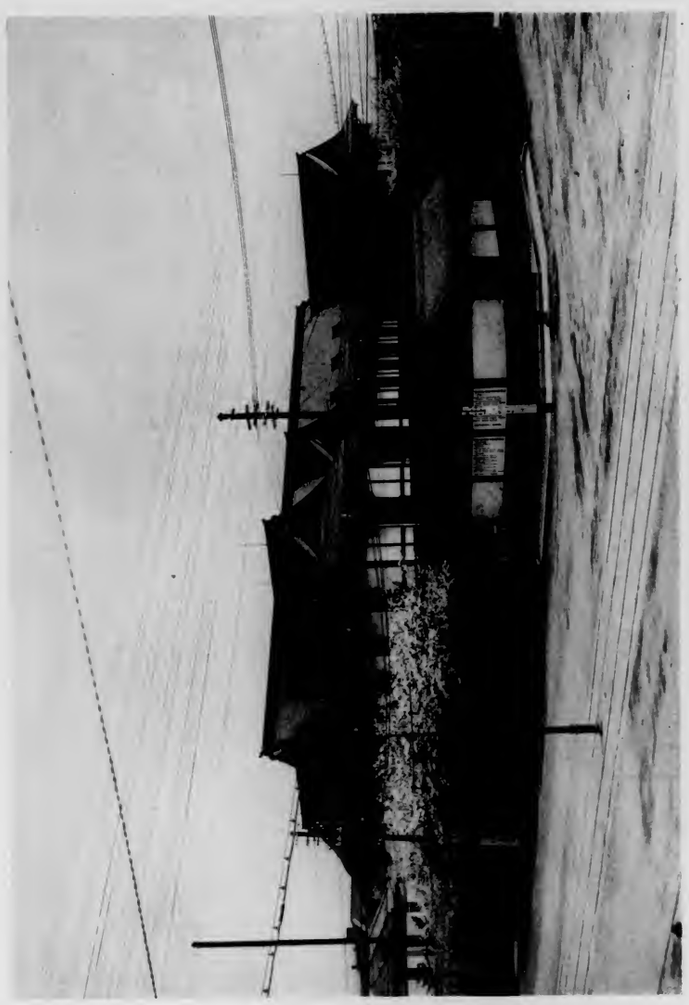
Compound interest may be charged delinquents, and payments may be anticipated by the debtor. When one-fifth of the loan is paid, a release may be granted for a proportionate amount. Failure to pay installments and deterioration of the security also subjects the loan to call.

The maximum rate of interest is fixed at the beginning of the year, with approval of the Minister of Finance, but may be changed.

Deposits and Surplus—How Employed

Deposits and surplus funds may only be used to purchase national loan bonds, or other negotiable instruments approved by the Minister of Finance, deposits in banks approved by him or in the Deposit Section of the Department of Finance, discounts, short term loans secured by loan bonds mentioned above, agricultural products, aquatic or industrial products.

The balance sheet for December 31, 1912, shows capital stock of 20,000,000 yen; reserve, 3,321,400 yen; total debentures issued,



HYPOTHEC BANK, TOKIO

160,292,290 yen; due other banks, 1,006,835 yen; deposits and current accounts, 1,479,731 yen; profits, 1,139,745 yen. Loans redeemable in annual installments, 152,144,646 yen; bills discounted 1,025,996 yen; deposits with the Deposit Bureau of the Department of Finance, 18,223,035 yen; deposits in other banks, 4,633,597 yen, and total assets of 191,225,562 yen.

Distribution of Profits

The net profits are distributed as follows: (a) Eight or more per cent. to reserve for supplementary losses, which fund may be employed to make up any deficit in capital caused by losses. (b) Two or more per cent. as reserve fund to equalize dividends, which fund can be employed to make up dividends in case they fall short of the 5 per cent. rate. (c) Out of the remainder a dividend of 5 per cent. on paid-up capital. (d) Of the balance, an amount not exceeding 10 per cent. of net profits, as a bonus to principal officers; the remainder going to stockholders as extra dividends, or carried to special reserve. In case the dividends fall short of 5 per cent. per annum, the Government shall, for a period of not over 10 years from date of establishment of the bank, grant a subsidy of not over five per cent. of the capital, to cover the deficiency.

Debentures

Hypothec Debentures have a minimum face value of 10 yen, and are issued in registered or coupon form, with the approval of the Minister of Finance. The issue of debentures is limited to 10 times the paid-up capital and shall not exceed the amount of loans redeemable in annual installments and agricultural and industrial debentures on hand, calculated at the price paid for them. Interest is payable semi-annually. Debentures are kept on a par with outstanding mortgages by drawing or by purchase, two or three times a year. Premiums may be granted subject to approval of the Minister of Finance. Debentures may be refunded at a lower rate of interest by drawings.

For converting registered into coupon debentures, and *vice versa*, replacing lost, stolen or mutilated debentures, and changing ownership of registered ones, a small fee is charged.

Failure to claim the principal of debentures for 15 years, or the interest for five years, forfeits the claim.

The debentures have a rating on the stock exchange and hence have a ready sale; they rank among the soundest investments offered to the public.

Administration

The Minister of Finance has general supervision of the bank; authorizes branches, approves dividends, receives reports, and in general directs the policy of the bank. The administration of the bank devolves upon the governor and vice-governor, appointed by the Government for five years, from among shareholders holding 100 or more shares; three to five directors (number determined at a general meeting of shareholders), and three inspectors. The directors are appointed for five years by the Government, from among candidates, whose number must be double the number to be selected, at a general meeting of shareholders owning 50 or more shares. Inspectors are elected for three years at a general meeting of shareholders from among owners of 30 or more shares.

During their incumbency the governor and vice-governor shall deposit 100 shares each, and directors 50 shares each of the bank stock, with the inspectors. The governor is the representative of the bank, has complete authority over employees, signs and seals the share certificates, debentures and other documents, presides over meetings, etc.

The vice-governor and directors assist the governor, and act as department heads.

The inspectors have supervisory powers over the conduct of the Bank, affix their signatures to debentures, and supervise the drawings for and cancellation of debentures.

All salaries are determined by the general meeting of stockholders.

Employees and principal officers are not allowed to borrow from the bank.

Governor, vice-governor and directors may not, during their term, engage in other business or profession, except with the approval of the Minister of Finance.

The Government inspectors may examine the bank at any time, call for reports and attend meetings.

Shareholders' General Meeting

General meetings of shareholders are: (a) Ordinary, January and July of each year, to review the work of the half-year as submitted by the managing officials, and vote dividends. (b) Extraordinary, subject to call at 14 days' notice, either on the initiative of the governor, inspector or shareholders holding at least one-fifth of the stock. Shareholders have one vote for each share. Proxies are allowed, but no principal officer or any employee may so act.

Agricultural and Industrial Banks in Japan

AGRICULTURAL and Industrial banks were created for the purpose of furnishing credit for short terms to farmers and to industrial enterprises, respectively, primarily using their own capital for the purpose. They may also receive deposits and in case of need may issue debentures. There are 46 such banks, with a paid-up capital of 29,000,000 yen; they have currently about 35,000,000 yen of advances or loans; they carry about 8,000,000 yen of deposits and have had to raise about 3,000,000 yen on debentures, to meet demands for loans.

Austria and Hungary

CO-OPERATIVE endeavor is characteristic of western Europe, and in no section more so than Austria and Hungary, with 17,000,000 farmers out of a total population of about 50,000,000. There were, according to Wolff, 6,977 registered co-operative societies in Austria alone in 1905, nearly one-half (3,306) being composed of Germans. There are also Czech (1918) Polish (878), Italian (242), Ruthenian (223), Slavonian (220), Roumanian (100), and Servo-Croatian (90) societies.

These are all governed by the same law, very much like the German, but allowing limited liability since 1873, at which time there were 943 societies. Limited liability is, therefore, more largely practiced in Austria than in Germany. In 1908 Austria had 9,316 co-operative societies, 2,140 having limited and 7,115 unlimited liability; 6,575 of the latter were Raiffeisen societies, 5,880 of these banks having 725,600 members in 1907, there being in 1910 a society for every 4,018 inhabitants. In 1910 there were 10,983 societies.

The fame of the German movement prompted the Austrian Diet to send experts to investigate these banks and report, and in the language of a former president, they came back "delighted." The movement then began in earnest, so that in 1910, after sixty years of co-operative endeavor, there was not a territory in which there were not duly organized, federated, subventioned, and supervised Raiffeisen banks. These banks take deposits, deal out loans, and in addition exercise to the great benefit of the rural population, the powers of collective purchase of goods for re-sale to members.

The movement in some quarters did not take root until 1899, when the local government devoted 2,000,000 crowns for the purpose of financing Raiffeisen banks, grants of from 200 to 300 crowns being made for initial expenses, and loans for long periods without interest. In 1909 the Diet of Galicia donated 2,000,000 crowns to co-operative credit, which fund is now administered by the Provincial Bank for Co-operative Societies at Leopoli. There being a lack of rural savings banks, these banks have attracted, as savings agencies, more cash than they have required for loans; and in no country, according to Dr. Ertl, of the Austrian Agricultural Ministry, has so much been done for co-operation by the State as in Austria, where the government has been instrumental in forming and endowing central banks, directing them, promulgating rules, and really "making the movement go."

What is true in the case of Austria has been true of Hungary. The first society was a "Thrift and Help Society" for artisans, founded in 1851, others following in 1854 and 1857, until in 1909 there were 3,467 co-operative societies. Of 3,088 societies making returns in 1904, 1,576 were of the Raiffeisen type. The interest rate runs from 5½ to 8 per cent. and the total working capital is about $75,000,000, a fair portion coming from the Government in the form of loans at a low rate of interest.

Belgium

CO-OPERATIVE credit in Belgium dates from 1884. Under the law of that year the General Savings Bank was authorized to make loans to farmers and co-operative credit societies, through the medium of a special kind of association known as "comptoirs," or "comptoirs agricoles," which are small corporate bodies, consisting of at least four persons who, for a small commission, guarantee the loans granted to individuals by the aforesaid bank, thus acting as the intermediary between the savings bank and the borrower. During the period 1884–1909, only 16 such societies were formed in the whole of Belgium. On January 1, 1910, there were 3,605 loans outstanding, so guaranteed,

684 of which were granted in 1909. The movement serves the large rather than the small farmer. The business is not sufficiently remunerative to warrant the risk.

Central Banks

All the rural banks are affiliated with regional central banks. Each member subscribes for one share of stock at the value of 100 francs and is liable up to 1,000 francs for each share subscribed. The dividend is fixed at 3 per cent., and the balance is carried to reserve.

These central banks accept deposits from the local banks, loan to them, supervise the management and inspect the books.

The General Savings Bank, by the law of 1894, set aside 1,000,000 francs to be lent to the rural banks at 3¼ per cent., which loans are guaranteed by the central banks for a small commission. This permits the local bank to lend to the farmers at 4 per cent. Excess money in the central banks may be deposited in the General Savings Bank at 3 per cent. There are seven central banks in Belgium, the most important being the Boerenbond, which in 1910 had affiliated with it 304 out of 643 Raiffeisen Banks.

Raiffeisen Banks in Belgium

To the Abbé Mellaerts belongs the credit of adapting Raiffeisenism to Belgium, the first bank being founded in 1892, since which time the system has spread rapidly. The shares are very small (2 francs) and the dividends do not exceed the rate charged on loans. There are two reserve funds, the "real" and the "conditional," the former consisting of share payments and entrance fees, and the latter the accumulated net profits.

There are over 643 co-operative banks of this type in Belgium, the membership of 458 being 25,762 in 1910, with total working capital of 22,020,786 francs.

Russia

RUSSIA is not, strictly speaking, an agricultural country, but one-eighth of the population, or about 20,000,000 out of 170,000,000, being farmers, and these have been backward in adopting the co-operative idea of banking. Nevertheless there are about 1,800 societies of the Schulze-Delitzsch type and 3,100 societies of small credit, patterned after the Raiffeisen banks. The latter have over 1,500,000 members.

As in other countries the borrower was at the mercy of the private money-lender, who charged from 60 to 240 per cent. The peasant now pays from 4⅗ to 12 per cent. for money. The Government has subsidized agriculture to the extent of $40,000,000 at 5 per cent. interest. Twenty or more farmers may form a society by petitioning the Minister of Finance, who sends an inspector to examine the land. Upon favorable report the organization receives from $500 to $1,500 as foundation capital for a period of thirteen years, and from $1,000 to $50,000 for one year as working capital. They may receive deposits and borrow funds from joint-stock banks and individuals.

Loans are made for current use, running one year; those for purchase of agricultural machinery, running three years, and for permanent improvements running five years.

Sixty per cent. of the net earnings of the society goes into the surplus or reserve fund. On entering the society a member must deposit 10 per cent. of the amount he desires to borrow.

Shares in loan associations run from $2 to $50, which form the foundation capital, while a government loan forms the working capital. Borrowing without security is limited to $150, but on pledge of grain and other products members can borrow up to $500. The average loan is $150.

There are also over twenty mortgage banks in Russia with millions of debentures outstanding. A "nobles' bank" and a "peasants' bank" are designed to put the farmer in possession of the land he cultivates.

Switzerland

SWITZERLAND is said to have a savings bank for every seven or eight square miles of territory, and 100,000 farms under seven acres; and, barring Denmark, there is no country where thrift is so methodically practised. The thrift agencies take the form of savings banks with numerous branches encouraging small deposits, and lending freely on mortgage security; mortgage banks, securing funds by bond issues; co-operative cattle purchase associations, and cantonal funds raised by means of loans, and

devoted to the purchase of cattle for the inhabitants. In 1908 there were 55 co-operative credit societies and about a hundred village banks, most of them of comparatively modern origin. The former issue shares and limited liability predominates. The shares run from 200 to 500 francs, but as high in one or two instances as 2,000 francs, and as low as 10 francs in others. There is no union of these popular banks; no complete statistics are available, and no uniformity of methods obtains.

Banque Populaire Suisse

The leading bank of the co-operative type is the *Schweizerische Volksbank* (*Banque Populaire Suisse*), formed in 1869 with capital of $525. At the beginning of 1910 it had 48,133 members, 55,775,938 francs capital and assets of 349,871,000 francs. The bank operates 14 branches and employs nearly 500 people. It favors cash credits in lending and in 1909 discounted bills to the amount of 287,701,800 francs, besides over 200,000,000 francs loaned on cash credits and specific advances. It secures funds from deposits, both commercial and savings, and debenture bond issues. Every branch manages its own affairs, with proper officials in charge, all under the general supervision of the head office.

The Raiffeisen movement in Switzerland dates from 1887, the first bank being formed at Schossdale, with twenty members. The government granted a subsidy of 500 francs. From 1900 the movement spread more rapidly, the banks in 1902 forming a federation, so that in 1906 there were 56 societies with 3,300 members. In 1908 the banks numbered about 100, with a membership of over 6,000, organized along strictly Raiffeisen lines. Money costs the Swiss farmer 4¾ per cent. with one per cent. additional for amortization.

Holland

HOLLAND, like its neighbor, Germany, is particularly well supplied with co-operative agricultural societies, there being 1,436 of these organizations with a membership of over 156,000. There are 735 co-operative credit banks with three central banks, which in turn are affiliated with the Netherlands Bank. In 1910 the 1,100 co-operative societies operating at that time bought for their 91,000 members over $10,000,000 worth of artificial manure, food-stuffs and seed. Out of 900 creameries, 700 were co-operative. There are mutual live-stock insurance societies in large numbers, mutual accident insurance societies for farmers and farm laborers, and about 100 co-operative societies for the disposal of fruit and vegetables. The average cost of money to the farmer is 4¾ per cent.

England and Ireland

AS BEFORE stated, co-operative credit for the farmer has never gained a foothold in England, although its most brilliant writer and enthusiastic supporter (Henry W. Wolff) is an Englishman. The reason, no doubt, lies in the system of land tenure; England being a country of large holdings. The farmer may receive notice to quit after having been on a piece of land for many years, even generations. Or, he may be driven out by excessive rent after considerably improving his holding. The setting for co-operative credit, elsewhere mentioned, is not there, for it is obvious that in a country of large holdings, co-operative credit banks are not likely to succeed. The small farmers of England are thus without security of tenure, which is liable to be terminated at short notice, and the effect of its existence is to deter tenants from spending labor and capital, borrowed or otherwise, on their holdings which they otherwise would.

The small holdings and allotment act of 1907, however, empowered county councils to acquire by compulsion, if necessary, land suitable for small holdings (five to fifty acres) and make allotments (under one acre), which the tenant holds as tenant of the council; and a tenant who improves his holding at his own expense is no longer in danger of losing his holding and the capital sunk in it, or in the alternative paying rent upon his own improvement. Conditions are therefore becoming better for co-operative banking in Britain.

In Ireland, however, the case is different, and they have had a fair degree of success. With few exceptions, the banks follow closely the German system. Poverty, provided it is not the result of drunkenness or thriftlessness, is no bar to membership. There are no shares, and liability is, as a rule, unlimited; which liability continues for a year after cessation of membership, for all debts incurred before severing the relationship. A small entrance

fee is charged. Besides the deposits, usually carrying 3½ per cent. interest, funds for co-operative credit banking in Ireland are obtained from the joint-stock banks on loan account, usually at 4 per cent., and advances from those friendly to the movement. Advances are also made by the Congested District Board for Ireland, and the Department of Agriculture and Technical Instruction for Ireland. The loans from stock banks are now the most important source of supply, affording to the societies a steady supply of funds and to the banks a steady market for money. The rates charged borrowers are around 6 per cent. in order to build up reserve.

The movement in England has not gained momentum enough to attract the assistance of the established banks, although a Central Co-operative Agricultural Bank has been formed to assist them in finding capital, five shares valued at £1 each in the central bank being essential to participate.

In 1910 Ireland had 237 societies, with membership (208 societies reporting) of 18,422 and total assets of about $285,000.

England, at the end of 1910, had 40 societies. Thirty-one societies had 663 members, an average of 21, as against 65 for Ireland and 92 for Germany. From 1908–10 27 societies were formed. In 1910 the deposits were £1,089, and £488 were on loan from banks. No funds have, up to 1912, come to English banks through government sources, although several attempts have been made to bring government aid to these institutions.

Canada's Credit Unions

THE co-operative credit banks of Canada, commonly called "credit unions," are patterned after the German banks and combine features found in both the Raiffeisen and Schulze-Delitzsch systems. The movement dates from December, 1900, being originated by Mr. Alphonse Desjardins, president of the Levis (Quebec) Credit Union. In 1909 in all but one of the 22 societies the shares were $5, payable in weekly, semi-monthly, or monthly installments, payments as low as ten cents a week being permitted. Savings deposits are received subject to fixed rate of interest, but only members are allowed to deposit. The real strength lies in a combination of limited liability and strong reserve, the latter often being equal to the capital. The liability lasts only so long as the shares are not withdrawn (withdrawals are allowed at any time), and the reserve is built up by entrance fees and profits, 20 per cent. of the latter being no unusual amount to set aside. This "rest fund" runs from 12 to 20 per cent. of the assets, although from 7 to 12 per cent. is considered ample. The by-laws of some societies forbid any dividend above 7 per cent. until the rest fund reaches the maximum.

The societies have no dealings with non-members and give preference to small and short-time loans payable in installments; but loans for longer periods, running up to fifteen years are permitted. The supreme power rests with the general assembly of stockholders. The Board of Administration has general powers of supervision and control, regulates the admission of members, transfers of stock, rate of dividends, amendments to by-laws, etc., and makes appointments to non-elective offices. The Commission of Credit passes upon loans, security, rate of interest charged, etc., and the members thereof cannot borrow directly or indirectly any of the funds of the bank. The Commission of Supervision has general powers of audit. Only one person, the president, may be on more than one board.

As in the European systems, borrowing is allowed for productive purposes only. The movement is fast spreading throughout Canada, and adequate laws covering the operation of these unions are now being drafted.

Denmark

THE Danske Landmandsbank, capitalized at 75,000,000 kroner, with reserve of 14,400,000 kroner was formerly the chief mortgage bank of Denmark, and dates from 1872. The mutual credit associations have however, in course of time taken over almost exclusively the mortgage loan business, the Landmandsbank now confining itself to other branches of banking. Debenture bonds of this bank were outstanding on January 1, 1913, to the amount of 19 million kroner and up to the same date the bank had granted loans to Danish municipalities amounting to 28 million kroner.

Co-operative banking in Denmark dates from 1850 and there are now about ten such societies. The underlying principle is that each society should be a bona-fide organization of borrowers, and borrowers only, combining their liability in order to make it go further. There is no need for share capital, but a reserve is created as fast as possible. These societies issue bonds which are readily absorbed by the Danish Savings Banks and private investors and are in high repute.

The State does not assist with money except in case of a few small societies in Jutland and the Danish Islands, established to help the very small owners, but allows franking privileges, exemption from stamp duty in respect to bonds, (but not mortgages) and grants a speedy method of foreclosure. Bonds are legalized for trust funds.

Before chartering it requires a certain volume of intended business to be shown, and demands a collective bond in joint liability up to the full value of the property pledged. Each society is limited to a certain district. The Government supervises their workings and approves all rules and regulations. The management has proven absolutely safe, losses have been trifling and foreclosures few.

Egypt

THE Agricultural Bank of Egypt was organized in 1902. It is particularly adapted to making land loans. All the agricultural loans of the National Bank of Egypt were transferred to it when it was organized. The authorized capital was $12,500,000. Two classes of loans were authorized, (a) loans up to $100, and not exceeding as a rule, twice the annual land tax, and payable in one sum, with a maximum period of 15 months; (b) loans up to $1500 and not to exceed as a rule, 10 times the tax paid to the government. These loans were to be amortized and secured by first mortgage on a 50 per cent. valuation. The maximum time, 20½ years. The rate of interest was fixed at 9 per cent. The collecting was through the tax collectors, as in the National Bank of Egypt, which became the largest stockholder. The Agricultural Bank of Egypt now has a practical monopoly of small agricultural loans.

The administration is in the hands of a board composed of the Governor of the National Bank of Egypt, as president, and five other members, two of whom are chosen from among the members of the board of directors of the National Bank of Egypt.

The most important feature of this bank is the governmental guaranty of dividends on the capital stock of the land bank.

The income of the bank arises from the following receipts:

(a) Interest actually received annually.
(b) Loans and installments due and received.

Charges are as follows:

(a) Operating expenses.
(b) Unpaid loans and installments.

Out of the profits is taken in the following order:

(a) Interest on the bonds.
(b) Five per cent. of interest actually received every year for the reserve fund, which is invested in securities approved by the government, interest from such investments being added to the reserve fund.
(c) Interest on preferred shares.
(d) Five per cent. for the National Bank of Egypt, as remuneration for transacting the financial operations of the Agricultural Bank.
(e) Five per cent. interest to the ordinary or common stock.

The balance is distributed, one-half to ordinary shares and one-half to deferred. If, during any year, the interest received, together with sums due upon loans or installments due, and unpaid, do not reach a sum necessary to cover all expenses of the year and amounts due on loans, and a sum representing 3 per cent. on the capital invested in loans to the fellahs, the additional sum shall be taken out of the reserve; and if the reserve is insufficient, the government will pay to the company, by February 15th, of each year, the balance necessary.

Crédit Foncier Egyptian

THE Crédit Foncier Egyptian is organized after the plan of the Crédit Foncier of France, as are all land banks whose sphere of operation is national. It was chartered for 99 years from January 1, 1880. The original capital of 40 million francs has been increased to 200 million, one-half of which has been paid in. The Company loans on mortgage security for long or short time periods, the latter without amortization, the former on the annuity plan, from 10 to 50 years.

Its funds are derived from the sale of bonds, classified as follows:

(a) With or without the lottery privileges; (b) with or without premiums; (c) with accumulated or capitalized interest; (d) redeemed yearly or matured after a certain period.

The total amount of bonds issued shall not exceed the amount due the society from mortgages and the interest rate shall not be lower than 3 per cent. in addition to the premiums.

It may loan money to syndicates, hospitals or other public institutions with or without mortgage security. It may buy mortgages, open current accounts on mortgages and discount bills with collateral. Deposits on interest are limited to one-half the capital. The governing body is a board of directors numbering not less than 12 nor more than 17. The general meeting of the shareholders is open only to holders of 50 shares, which entitles the holder to one vote. The limit to one shareholder is 15 votes.

The net profits are distributed as follows:

A 6 per cent. dividend to capital, after which 10 per cent. of the remainder goes to the reserve fund, 5 per cent. to board of directors, 15 per cent. to deferred shares, (2,000 of which were originally issued without par value) and 70 per cent. to the capital stock.

The bonds with lottery privileges are entitled to participate in a drawing on the 15th of each month, 12 of which are drawn by lot each month and the chosen numbers awarded prizes. Six times a year the first prize is 100,000 francs, and six times 50,000 francs; the second prize is 10,000 francs with 10 other prizes of 1,000 francs each. All lottery bonds draw 3 per cent. and were issued in 1886, 1903 and 1911. Bonds having no lottery privileges bear 3½ and 4 per cent. interest. The total outstanding bonds amount to $116,975,436.

The mortgage loan methods are very much like those of the Crédit Foncier of France. The applicant applies at the local office for the loan desired, giving his name and address, amount, purpose of the loan, the time to run, manner of payment desired, rate, character of the property, estimate of value, exact location, boundaries, etc., referring to book numbers of the survey department, distance from railway station, present income. He must also deposit certificate of tax collector, signed by the mayor of village, describing the property and certificate that it is not mortgaged at the time. Also a certificate of the province officer giving boundaries and book numbers from the books of the department. Paid tax receipts for the past three years must also be presented and a deposit made to cover expenses. If, granted, after the appraiser's report, the borrower is asked to sign a bill for the amount of expenses, and when papers are ready for execution he must go to Cairo on a certain day and hour and sign. When the loan is complete the borrower has paid from 1½ to 2 per cent. for expenses.

The Philippines

THE Agricultural Bank of the Philippine Government, created by the act of June 18, 1908, of the Philippine Government, is a governmental subsidy, pure and simple, all its capital (1,000,000 pesos) being subscribed from the public funds. The administration is by a board of directors of five members, three being appointees of the Governor-General, and the Secretary of the Department of Finance and the Treasurer of the Islands ex-officio.

The corporation does a general banking business, receives time deposits, (rate not to exceed 4 per cent.,) from the Postal Savings Bank, provincial and municipal governments and others. It works through branches, and its principal function is to furnish capital to the farmer, on time loans, not to exceed ten years. The rate is 10 per cent. and loans are made only on improved and unencumbered urban property, unencumbered farm land and harvested crops. The limit is 40 per cent. of the value, and the minimum loan is 50 pesos, the maximum 25,000 pesos to a single borrower. One-half the capital is set aside for loans of not over 5,000 pesos.

Loans are made to satisfy existing liens, drainage and irrigation projects, purchase of

fertilizer and seeds, machinery, and animals. Loans are made only to agriculturists, and exclusively for the above purposes. No fees are required, except the usual recording fees. Loans take the usual course of mortgage loans when the lender is a centralized institution working through agents and branches. The bank opened for business at Manila on October 11, 1909.

The Philippine Bank has not materially assisted the Filipinos, for as late as the spring of 1912 the Governor-General of the Islands called attention to undeveloped condition of agriculture in the Islands, and the fact that neither the Postal Savings Bank nor the Agricultural Bank had responded to the needs of the small farmer, since they cater principally to the large holder. The small farmer seems suspicious of the banks and resorts to private lenders, who impose usurious conditions. Mortgages on small farms are difficult to obtain on account of defective titles and costly legal processes. As a remedy the Raiffeisen Bank is suggested.

India

THE story of Germany and Italy is the story of India: Rural needs great; peasantry poor and hopelessly burdened with usury; agriculture, though "bristling with opportunities" in a rich, fertile country, undeveloped. The people are, as a rule, honest and industrious, and only money is needed to bring in the day of better things. What better setting for a scheme of co-operative credit?

Officially this form of banking has been before the government since 1883, being formally instituted by the Co-operative Societies Act of 1906, authorizing the appointment by provincial governments of officials known as registrars of co-operative credit societies, with wide powers for the promotion and supervision of credit societies. On the first of July, 1909, after only four and a half years' operation, over 2,000 societies were in existence with over 184,000 members.

These registrars have encouraged the work and greatly aided the movement. The State has in a small measure assisted, one-twelfth of the capital coming from the government. The idea has been so favorably received that it has attracted its own working funds rather than depending upon outside help. Losses have been infinitesimal.

Mexico

THE mortgage banks of Mexico, the first of which was chartered in 1882, are patterned after the Crédit Foncier of France. The bond issues are limited to 20 times the paid-up capital, and in order to prevent over issue of such securities, the law provides that the outstanding bonds and unpaid mortgages shall balance at the end of each half year. There is also a special guaranty fund in cash which must always be greater than the total amount of interest on the total outstanding bonds for the half year. Bond holders are preferred creditors as respects the capital, reserve and guaranty fund. Bonds are legal investments for trust funds.

The term of the loan must not exceed forty years and only first mortgages are taken, on a fifty per cent. basis. The yearly payments by borrowers must not exceed the returns on the capital invested in the property at a rate specified in the by-laws of the bank. Installments are payable quarterly, half-yearly or yearly. In case of default or depreciation, the law provides a speedy method of relief.

To afford short time credit, a special class of banks ("Banco Refaccionarios") have been created to place capital at the disposal of agriculture. These banks attract capital by the issue of "cash bonds" bearing interest and redeemable in not less than three months nor longer than two years. They are essentially certificates of deposit and are payable to bearer. These cash bonds are limited to twice the paid-up capital, plus the cash balance in coin or bullion added to the amount of quickly negotiable securities and bills receivable on hand. They are on a par with bank notes in their preferential aspects. In short, the mortgage banks supply the long time loans, obtaining capital from bond issues, and the Banco Refaccionarios the short term credit through the issue of the cash bonds of small denomination. The loans take the form of mortgage loans with amortization features, cash loans for periods up to three years, collateral loans up to two years, and discounts of commercial paper.

Report of the American Commission

IN HIS report covering the investigation of rural and agricultural credit systems of fourteen European countries, to the House of Governors at Colorado Springs, Col., August 26, 1913, Senator Duncan U. Fletcher of Florida, chairman of the Commission and President of the Southern Commercial Congress said in part: "It is highly gratifying to report that the stupendous task assigned to us was accomplished. The countries visited included Italy, Austria, Hungary, Russia, Egypt, Germany, Denmark, Switzerland, France, Spain, Belgium, Holland, England and Ireland. * * *

"Organizations for the provision of credit facilities for European farmers follow the natural division into short time personal credit and long time land-mortgage credit. The personal credit organizations have the form of co-operative societies.

"Land mortgage credit has been organized so as to place a collective security back of bonds issued by land-mortgage societies in contrast with the system of marketing individual loans upon individual mortgages. These land-mortgage institutions bring to European farmers low interest rates; the privileges of repaying loans in small fixed annual installments extending over a term of years—in some cases as long as seventy-five years; protection from advance in interest rates; and the practical elimination of commission charges. The organizations for production and distribution of farm products also follow co-operative lines."

Personal Credit

"Credit is the keystone of the organization proposed. American farmers possess potential credit of vast amount. The task is to discover a plan whereby that credit may be made cheaply and easily available. * * *

"The most highly developed systems of short-time agricultural credit institutions are found in Germany. They are in the form of a pyramid composed of local co-operative credit societies, central societies operating generally over a province or administrative district and a main central society, as the apex, at Berlin. * * *

"In their operation it is necessary to insure two things, first, that creditors shall be protected in their loans, and second, that members shall be protected against the losses to which their liability subjects them. This is done, first, by admitting to the society only persons of good standing. Then it is provided that loans shall be made only for productive purposes, the borrower being required to state for what purpose he desires a loan. Further, the territory of operations for each society is limited to an area wherein every member knows every other member. The officers of the society are so chosen that one set or board keeps check on the other. The general management of the affairs of the society is left in the hands of the general assembly of all members. * * *

"All such local societies within a certain territory are combined to form a central society. A central bank is established which has, first, a small cash capital subscribed by the local societies, and secondly, the collective liability of its constituent banks as capital. The main central banks act as equalizers for the central banks above mentioned. The effect of this pyramiding of the societies is to concentrate all of the borrowing and investing for a system in one big institution. * * *"

Mortgage Credit

"The worst feature of the farm mortgage in this country is in its individual character. An investor buying a farm mortgage must determine the sufficiency of the security offered; must attend to collections of principal and interest; must see that the taxes are paid and that the property is not allowed to depreciate in value.

"The second, and perhaps the greatest, disadvantage is the limited time for which a farmer may borrow money on a mortgage and the fact that he is required to pay back in a lump sum the entire principal of the loan at the end of that short time or else secure a renewal. These disadvantages will rest upon the farmer so long as he is obliged to sell his mortgage direct to the investor. * * *

"The effect of the European system is to break all connection between the mortgagor and the mortgagee. The mortgage bonds are secured by the mortgages, but are the direct obligation of the institutions. No one bond is secured by one mortgage, but each bond is a lien against all of the mortgages. They are issued payable to bearer; are generally listed on the exchanges and so form a liquid asset. The farmers are charged a rate sufficiently above the rate paid on the bonds to clear a margin for the institution to pay expenses, and build up reserves. * * *

"These mortgage bonds run for an indefinite period. Each year the farmers are required to pay, besides the interest, a certain percentage towards reducing the principal of the loan."

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